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April 21, 2006

CLIENT/MATTER NUMBER
999100-0917

Linda Ketellapper, SFD-7-B
U.S. Environmental Protection Agency, Region IX
Superfund Division
75 Hawthorne Street
San Francisco, CA 94105

Re: Request for Information – Omega Superfund Site McKesson Chemical former facility at 9005 Sorensen Avenue, Santa Fe springs, CA

Dear Ms. Ketellapper:

This firm represents Advance PCS Holding Corporation ("Advance") in the above referenced matter. I write in response to your request for information concerning the Omega Chemical Superfund Site, Santa Fe Springs, California. Since our last conversation, we have conducted significant research and can now document that Advance or its predecessor entities never took title to or responsibility for the former McKesson Chemical facility at 9005 Sorensen Avenue, Santa Fe Springs, CA ("Property").

On November 30, 1994, McKesson Corporation sold its pharmacy benefits management business to Eli Lilly. That transaction is fully documented in Eli Lilly's Tender Offer statement, Form SC 14D1, filed July 15, 1994 and attached hereto as Exhibit A (the "Tender Offer Statement"). The Reorganization and Distribution Agreement that is referred in the Tender Offer Statement is attached hereto as Exhibit B (the "Reorganization and Distribution Agreement").

STRUCTURE OF ACQUISITION

Eco Acquisition, a Delaware corporation and a wholly-owned subsidiary of Eli Lilly and Company, merged with and into (the "Merger") McKesson Corporation ("McKesson-Delaware"), a Delaware corporation, by filing a Certificate of Ownership and Merger with the Secretary of State of Delaware. Upon filing the Certificate of Ownership and Merger, the name of the surviving corporation was changed to PCS Holding Corporation. Pursuant to the Reorganization and Distribution Agreement, in connection with the Merger, Eli Lilly acquired the capital stock of McKesson Corporation ("McKesson-Maryland"), a Maryland corporation, Clinical Pharmaceuticals, Inc. ("CPI"), a Delaware corporation, PCS Health Systems, Inc. ("PCS Health"), a Delaware corporation, and Integrated Medical Systems, Inc. ("IMG"), a Colorado corporation.

Immediately prior to the Merger, McKesson-Delaware formed a new subsidiary, SP Ventures, Inc., a Delaware corporation, and caused all assets and liabilities that were not related to the pharmacy benefits management business to be transferred to SP Venture, Inc. In particular, all the assets and liabilities of McKesson-Maryland were transferred to SP Ventures, Inc. pursuant to Section 2.1 of the Reorganization and Distribution Agreement. Then, McKesson-Delaware stockholders were distributed stock in SP Ventures, Inc. (the "Spin Off"). SP Ventures, Inc. then changed its name to McKesson Corporation. Therefore, when Eli Lilly acquired McKesson Corporation (and the stock of McKesson-Maryland, CPI. PCS Health and IMG) – all it acquired was McKesson's pharmaceutical benefits management business.

On December 7, 1994, McKesson-Maryland changed its name to LP Holding Corporation. Note again that as of November 30, 1994, this entity was a subsidiary of Eli Lilly and had transferred out all assets or liabilities relating to McKesson's business to SP Ventures, Inc., thereby becoming a shell corporation. Then, on October 1, 1997, as part of an internal corporate restructuring, LP Holding Corporation was merged into its parent corporation, PCS Holding Corporation.

According to the Reorganization and Distribution Agreement, SP Ventures, Inc. acquired all of McKesson's assets and liabilities, other than the assets and liabilities relating to the pharmacy benefits management business. The Agreement also defines the assets acquired by Eli Lilly as the stock of McKesson-Maryland, CPI, PCS Health and IMG and certain assets owned by PCS Health and CPI. The liabilities acquired by Eli Lilly are defined as the liabilities of PCS Health and CPI to other parties relating to the assets acquired. Therefore, Eli Lilly did not acquire (i) the environmental liabilities of McKesson-Maryland or (ii) any assets of McKesson-Maryland, including that certain lease relating to real property located at 9005 Sorensen Avenue, Santa Fe Springs, CA (the "Property").

Thus, when PCS Holding Corporation was sold to Rite Aid by Eli Lilly, and then sold to Advance Paradigm, which was then acquired by Caremark Rx, Inc., no liabilities relating to the Property were transferred.

Should you have further questions concerning these transactions, please to not hesitate to contact me.

Very truly yours,

S. Wayne Rosenbaum

Enclosure

FORM SC 14D1

LILLY ELI &CO - lly

Filed: July 15, 1994 (period:)

Tender offer statement

EXHIBIT 99.10

REORGANIZATION AND DISTRIBUTION AGREEMENT

dated as of July 10, 1994

by and among

MCKESSON CORPORATION,

MCKESSON CORPORATION,

CLINICAL PHARMACEUTICALS, INC.,

PCS HEALTH SYSTEMS, INC.,

and

SP VENTURES, INC.,

TABLE OF CONTENTS

REORGANIZATION AND DISTRIBUTION AGREEMENT

REORGANIZATION AND DISTRIBUTION AGREEMENT, dated as of July 10, 1994, by and among McKesson Corporation, a Delaware corporation (the "Company"), McKesson Corporation, a Maryland corporation and a wholly-owned subsidiary of the Company ("Maryland"), Clinical Pharmaceuticals, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("CPA"), PCS Health Systems, Inc., a Delaware corporation and a wholly-owned subsidiary of Maryland ("Prescription"), and SP Ventures, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("Spinco").

WHEREAS, the Board of Directors of the Company has determined to cause the transfer to Spinco of all of the Company Business (as hereafter defined), the assumption by Spinco of the Company Liabilities (as hereafter defined), and the issuance to the Company of shares of Spinco Common Stock (as hereafter defined);

WHEREAS, Spinco is willing to accept such transfer of the Company Business, issue such shares of Spinco Common Stock to the Company and assume such Company Liabilities;

WHEREAS, prior to the transfer by the Company to Spinco of the Company Business and the Company Liabilities, Maryland intends to distribute all of its assets and liabilities constituting part of the Company Business and part of the Company Liabilities, respectively, to the Company;

WHEREAS, the Company intends to cause the distribution of all of its shares of Spinco Common Stock to the holders of the Company Common Stock (as hereafter defined) on the Record Date (as hereafter defined);

WHEREAS, the Company and Spinco have determined that it is desirable to set forth the principal corporate transactions required to effect such transfer and distribution and to set forth other agreements that will govern certain other matters prior to or following such distribution;

WHEREAS, the Company has entered into an Agreement and Plan of Merger, dated as of the date hereof (the "Merger Agreement"), with Eli Lilly and Company, an Indiana corporation ("Parent"), and ECO Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Parent (the "Purchaser"), providing for the Offer and the Merger (each as hereafter defined), as a result of which the Company, as the corporation surviving the

Merger, will become a wholly-owned subsidiary of Parent; and

WHEREAS, in order to induce the parties to enter into this Agreement and in consideration of the Company's willingness to enter into the Merger Agreement, the parties hereto and certain other parties are entering or will enter into the Tax Sharing Agreement and the Services Agreements (as hereafter defined) providing for certain ongoing relationships among the parties;

NOW, THEREFORE, in consideration of the foregoing and the agreements, provisions and covenants contained herein, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1. General. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Action" means any action, claim, suit, arbitration, inquiry, proceeding or investigation by or before any court, any governmental or other regulatory or administrative agency or commission or any arbitration tribunal.

"Affiliate" shall have the same meaning as specified in Rule 12b-2 of the General Rules and Regulations under the Exchange Act; provided that the Company and Spinco and their respective subsidiaries (after giving effect to the Reorganization) shall not be deemed to be Affiliates of each other for purposes of this Agreement.

"Agent" means the distribution agent appointed by the Company to distribute shares of the Spinco Common Stock pursuant to the Distribution.

"Armor All Indenture" means the Indenture dated as of March 14, 1994 between the Company and The First National Bank of Chicago, as trustee, as amended or supplemented from time to time.

"Asset" means, with respect to any party, except as otherwise provided herein, any and all of such party's and its subsidiaries' right, title and interest in and to all of the rights, properties, assets, claims, contracts and businesses of every kind, character and description, whether real, personal or mixed, whether accrued, contingent or otherwise, and wherever located, owned or used primarily by such party and its subsidiaries, including, without limitation, the following: (i) all cash, cash equivalents, notes and accounts receivable

(whether current or non-current); (ii) all certificates of deposit, banker's acceptances and other investment securities; (iii) all registered and unregistered trademarks, service marks, service names, trade styles and trade names (including, without limitation, trade dress and other names, marks and slogans) and all associated goodwill; all statutory, common law and registered copyrights; all patents; all applications for any of the foregoing together with all rights to use all of the foregoing and all other rights in, to, and under the foregoing; all know-how, inventions, discoveries, improvements, processes, formulae (secret or otherwise), specifications, trade secrets, whether patentable or not, licenses and other similar agreements, confidential information, and all drawings, records, books or other indicia, however evidenced, of the foregoing; (iv) all rights existing under leases, contracts, licenses, distribution arrangements, sales and purchase agreements, other agreements and business arrangements; (v) all real estate and all plants, buildings and other improvements thereon; (vi) all leasehold improvements and all machinery, equipment (including all transportation and office equipment), fixtures, trade fixtures and furniture; (vii) all office supplies, production supplies, spare parts,

other miscellaneous supplies and other tangible property of any kind; (viii) all raw materials, work-in-process, finished goods, consigned goods and other inventories; (ix) all computer hardware, software, computer programs and systems and documentation relating thereto; all databases and reference and resource materials; (x) all prepayments or prepaid expenses; (xi) all claims, causes of action, choices in action, rights of recovery and rights of set-off of any kind; (xii) the right to receive mail, accounts receivable payments and other communications; (xiii) all customer lists and records pertaining to customers and accounts, personnel records, all lists and records pertaining to suppliers and agents, and all books, ledgers, files and business records of every kind; (xiv) all advertising materials and all other printed or written materials; (xv) all permits, licenses, approvals and authorizations of governmental authorities or third parties relating to the ownership, possession or operation of the Assets; (xvi) all capital stock, partnership interests and other equity or ownership interests or rights, directly or indirectly, in any subsidiary or other entity; (xvii) all goodwill as a going concern and all other intangible properties; and (xviii) all employee contracts, including, without limitation, the right

thereunder to restrict the employee from competing in certain respects.

"Casualty Program" means collectively, the series of programs pursuant to which various insurance carriers provide insurance coverage to the Company and its subsidiaries in respect of claims or occurrences relating to workers' compensation liability, general liability, products liability, automobile liability and employer's liability for all periods up to the Distribution Date.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company Assets" shall have the same meaning as defined in Section 2.1(a).

"Company Business" means all present businesses of the Company and its subsidiaries other than the Prescription Business, including, without limitation, the pharmaceutical and health care products distribution business, the water products business and the Armor All business, as conducted by the Company and its subsidiaries as of the Offer Purchase Date and all former businesses of the Company and its subsidiaries.

"Company Common Stock" means the common stock of the Company, par value $2.00 per share.

"Company Liabilities" means all of the Liabilities of the Company and all of its subsidiaries, other than the Prescription Liabilities.

"Company Indebtedness" shall have the same meaning as defined in Section 2.4(c) hereof.

"Disclosure Schedule" means the disclosure schedule dated as of the date hereof and attached hereto.

"Distribution" means the distribution of the shares of Spinco Common Stock owned by the Company to holders of Company Common Stock.

"Distribution Date" means the date as of which the Distribution shall be effected as determined by the Board of Directors of the Company.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Form 10" means the registration statement on Form 10 to be filed by Spinco with the SEC to effect the registration of the Spinco Common Stock pursuant to the Exchange Act.

"IMS" means Integrated Medical Systems, Inc., a Colorado corporation.

"Indemnifiable Losses" means, with respect to any claim by an Indemnitee for indemnification pursuant to Article V, VI, VIII or IX hereof, any and all losses,

Liabilities, claims, damages, obligations, payments, costs and expenses (including, without limitation, the costs and expenses of any and all Actions, demands, assessments, judgments, settlements and compromises relating thereto and reasonable attorneys' fees and expenses in connection therewith) suffered by such Indemnitee with respect to such claim.

"Indemnifying Party" means any party who is required to indemnify any other person pursuant to Article V, VI, VIII or IX hereof.

"Indemnitee" means any party who is entitled to receive indemnification from an Indemnifying Person pursuant to Article V, VI, VIII or IX hereof.

"Indemnity Payment" means the amount an Indemnifying Party is required to pay an Indemnitee pursuant to Article V, VI, VIII or IX hereof.

"Information Statement" means the information statement to be sent to the holders of the Company's equity securities in connection with the Distribution.

"Liabilities" means, with respect to any party, except as otherwise provided herein, any and all liabilities and obligations of such party, whether accrued, contingent or reflected on a balance sheet (or in the notes thereto), including, without limitation, those

arising under any law, rule, regulation, Action, order or consent decree of any governmental entity or any judgment of any court of any kind or any award of any arbitrator of any kind, and those arising under any contract, commitment or undertaking.

"Lien" means any mortgage, pledge, lien, encumbrance, charge, adverse claim (whether pending or, to the knowledge of the person against whom the adverse claim is being asserted, threatened) or restriction of any kind affecting title or resulting in an encumbrance against property, real or personal, tangible or intangible, or a security interest of any kind, including, without limitation, any conditional sale or other title retention agreement, any third party option or other agreement to sell and any filing of or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statute) of any jurisdiction (other than a financing statement which is filed or given solely to protect the interest of a lessor).

"Merger" shall have the meaning set forth in the Merger Agreement.

"Merger Agreement" shall have the meaning set forth in the introductory section of this Agreement.

"NYSE" means the New York Stock Exchange, Inc.

"Offer" shall have the meaning set forth in the Merger Agreement.

"Offer Purchase Date" means the date on which the Purchaser accepts for payment and pays for Shares tendered pursuant to the Offer.

"Prescription Assets" means (a) all of the capital stock of Maryland, Prescription, CPA and IMS, and (b) except as provided in the following sentence, the Assets owned by Prescription and CPA, including, without limitation (i) the Assets reflected on the Prescription Balance Sheet, except for Assets disposed of since the date of the Prescription Balance Sheet, (ii) the TAG Retainer Agreement, (iii) the Prescription Names and Prescription Proprietary Name Rights, (iv) the Prescription Actions (to the extent such actions constitute Assets), (v) any Assets set forth on Section 1.1.1 of the Disclosure Schedule and (vi) to the extent not sold by the Company prior to the Offer Purchase Date, any shares of Spinco Preferred Stock to be sold by the Company pursuant to Section 2.5 hereof. The Prescription Assets shall not include the Assets set forth in Section 1.1.2 of the Disclosure Schedule.

"Prescription Balance Sheet" means the consolidated balance sheet (including the related notes) of the

Prescription Business as of March 31, 1994 included in the financial statements attached to Section 4.7(b) of the Disclosure Schedule to the Merger Agreement.

"Prescription Business" means the pharmaceutical benefits management business as conducted by Prescription and CPA as of the Offer Purchase Date.

"Prescription Employees" means the employees of Prescription and CPA as of the Offer Purchase Date. In the event any person shall have been employed by Prescription or CPA as well as by the Company or any of its other subsidiaries, such person shall be considered a Prescription Employee if at the Offer Purchase Date such person's primary employment shall be with Prescription or CPA.

"Prescription Liabilities" means (a) all of the Liabilities of Prescription and CPA to parties other than the Company and its subsidiaries relating to or arising out of the Prescription Assets and the conduct of the Prescription Business, including, without limitation, those reflected or reserved against in the Prescription Balance Sheet and those arising after the date thereof; (b) the Liabilities of Prescription and CPA to the Company and its subsidiaries reflected on Schedule 1.1.3 hereto; (c) the Liabilities of the Company and its subsid-

iaries, including, without limitation, Prescription and CPA, in respect of Prescription Employees (but not in respect of retirees or other persons who, as of the Offer Purchase Date, were no longer employees of Prescription or CPA); and (d) the Prescription Actions (to the extent such actions constitute Liabilities).

"Private Indebtedness" shall have the same meaning as defined in Section 2.4(a) hereof.

"Public Indebtedness" shall have the same meaning as defined in Section 2.4(c) hereof.

"Public Indentures" shall mean the Armor All Indenture and the Unlimited Indenture.

"Record Date" means the date determined by the Board of Directors of the Company as the record date for the Distribution.

"Reorganization" means collectively, the transactions contemplated pursuant to the provisions of Article II hereof.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended.

"Services Agreements" means the HDS Services Agreement, the McKesson Services Agreement and the Memo-

randum of Understanding, each dated as of the date hereof, among Parent, the Company, Spinco and Healthcare Delivery Systems, Inc.

"Spinco Common Stock" means the common stock, par value $0.01 per share, of Spinco, together with the associated preferred stock purchase rights to be issued pursuant to a rights agreement to be entered into between Spinco and a rights agent to be selected by Spinco

"Spinco Employees" shall mean those employees of the Company or its subsidiaries who are employed in the Company Business immediately prior to the Offer Purchase Date and all former employees of the Company or its subsidiaries who, immediately prior to the termination of their employment, were employed in the Company Business.

"Spinco Preferred Stock" means the series of shares of Preferred Stock, par value $.01 per share, of Spinco which may be authorized and issued by Spinco as contemplated hereby, having such powers, designations, preferences and relative, participating, optional or other special rights, and qualifications or restrictions, as are agreed to by Spinco and the Company.

"Spinco PSIP" means the Profit Sharing Investment Plan of Spinco.

"TAG Retainer Agreement" shall mean the Retainer Agreement, dated as of December 30, 1993 and effective as of January 3, 1994, by and among the Company, Technology Assessment Group, a California general partnership, Sheila Fifer and Peter Mazonson.

"Tax Sharing Agreement" means the Tax Sharing Agreement, in the form of Exhibit A to the Merger Agreement, pursuant to which the Company and Spinco have provided for certain tax matters, including, without limitation, indemnification, allocation of tax benefits and filing of tax returns.

"Third Party Claim" shall have the same meaning as specified in Section 5.3(a).

"Unlimited Indenture" means the Indenture dated as of September 1, 1990 between the Company and Chemical Bank, as trustee, as amended or supplemented from time to time.

Section 1.2. References to Time. All references in this Agreement to times of the day shall be to New York City time.

ARTICLE II

THE REORGANIZATION AND RELATED TRANSACTIONS

Section 2.1. Transfers of Assets.

(a) Subject to the terms and conditions of this Agreement, prior to the Distribution Date:

(i) Maryland shall distribute by dividend to the Company (or, at the election of Maryland and the Company, Maryland shall otherwise transfer and deliver to the Company), all of its right, title and interest in and to all of its Assets other than the Prescription Assets; and the Company shall assume, pay, perform and discharge, or cause to be assumed, paid, performed and discharged, in due course, all of Maryland's Company Liabilities; and

(ii) the Company shall contribute to Spinco all of its right, title and interest in and to all of its Assets (including, without limitation, the Assets previously transferred to the Company from Maryland pursuant to clause (i) above) other than (A) the Prescription Assets, (B) the capital stock of Spinco, and (C) the rights of the Company under this Agreement (all such Assets to be so contributed to Spinco are hereinafter collectively re-

ferred to as the "Company Assets"); and Spinco shall assume, pay, perform and discharge, or cause to be assumed, paid, performed and discharged, in due course, all of the Company Liabilities (including, without limitation, the Company Liabilities of Maryland previously assumed by the Company pursuant to clause (i) above). "Company Assets" shall include, without limitation (A) all shares of capital stock, partnership interests and other equity or ownership interests or ownership rights in all subsidiaries and other entities owned directly or indirectly by the Company or Maryland (including, without limitation, the general partnership interest in Technology Assessment Group, a California general partnership, held by McKesson Outcomes Research Corporation, a Delaware corporation, but excluding all shares of capital stock of Maryland, Prescription, CPA, Spinco and IMS), and all rights to Assets held by such subsidiaries and entities, (B) except as provided in Section 4.1 hereof, all cash and cash equivalents held by the Company or any of its subsidiaries, including, without limitation, the Spinco Cash Amount (as defined in the Merger Agreement), (C) any shares of Spinco Common Stock distributed in

the Spin-Off in respect of Shares owned by the Company or its subsidiaries; (D) the Company Names and Company Proprietary Names, and (E) the Company Actions (to the extent such actions constitute Assets). Subject to the terms and conditions set forth in this Agreement, the Company shall, or shall cause Prescription or CPA to, assume, pay, perform and discharge in due course all Prescription Liabilities.

(b) Subject to the provisions of Section 6.2 hereof and except with respect to the Company Indebtedness as provided in Section 2.4 hereof, to the extent that any such contributions and transfers shall not have been so consummated prior to the Offer Purchase Date, the parties shall cooperate to effect such consummation as promptly thereafter as shall be practicable, and as between the Company and Spinco, as of the Offer Purchase Date, the Company shall be deemed to have contributed to Spinco, and Spinco shall have and be deemed to have obtained, complete and sole beneficial ownership over all of the Company Assets, together with all of the Company's rights, powers and privileges incident thereto, and Spinco shall be deemed to have assumed in accordance with the terms of this Agreement all of the Company Liabili-

ties and all of the Company's duties, obligations and responsibilities incident thereto, whether or not all instruments of transfer and assumption shall have been executed and delivered.

Section 2.2. Method of Transfer. The parties hereto agree that (a) the contribution and transfer of the Company Assets contemplated pursuant to Section 2.1 hereof shall be effected by delivery by Maryland to the Company, and by the Company to Spinco, as the case may be, of (i) with respect to those Company Assets which are evidenced by capital stock certificates or similar instruments, certificates duly endorsed in blank or accompanied by stock powers or other instruments of assignment executed in blank and (ii) with respect to all other Company Assets, such good and sufficient instruments of contribution, transfer and delivery, in form and substance reasonably satisfactory to the Company, Maryland, Parent and Spinco, as shall be necessary to vest in Spinco all of the right, title and interest of the Company and Maryland in and to such Company Assets, and (b) the assumption of the Company Liabilities contemplated pursuant to Section 2.1 hereof shall be effected by delivery by the Company to Maryland, and by Spinco to the Company, as the case may be, of such good and sufficient

instruments of assumption, in form and substance reasonably satisfactory to the Company, Maryland, Parent and Spinco, as shall be necessary for the assumption by Spinco of the Company Liabilities.

Section 2.3. Issuance of Spinco Stock to the Company. Spinco agrees to issue to the Company, contemporaneously with the transfer of Company Assets and assumption of Company Liabilities contemplated herein, the number of shares of Spinco Common Stock equal to the number of shares of Company Common Stock outstanding on the Record Date (excluding shares of Company Common Stock held by the Company in its treasury or, subject to applicable law, held by any subsidiary of the Company). In addition, Spinco agrees to issue to the Company on or prior to the Record Date such additional shares of Spinco Common Stock as may be required in order for the Company to fulfill its obligations pursuant to Section 3.2 hereof. Spinco further agrees that if, prior to the Record Date, the Company elects to enter into the Preferred Stock Purchase Agreement (as defined herein), Spinco shall authorize and issue to the Company, contemporaneously with the transfer of Company Assets and assumption of Company Liabilities contemplated herein, 1,000 shares of Spinco Preferred Stock.

Section 2.4. Transfer of Company Indebtedness to Spinco.

(a) On or prior to the Offer Purchase Date, Spinco shall assume and agree to pay, perform and discharge, pursuant to the terms of, and shall perform and abide by all other obligations, covenants and agreements applicable to the Company under (but, as set forth in Section 2.4(b) hereof, in each case subject to the obtaining of any required consents or approvals), each of the debt obligations of the Company and its subsidiaries set forth in Section 2.4(a) of the Disclosure Schedule (the "Private Indebtedness").

(b) Each of the parties hereto shall use its best efforts to obtain any consent or approval required from the holders of the Private Indebtedness or otherwise to cause the assumption by Spinco of all Private Indebtedness pursuant to paragraph (a) above and the release of the Company or Maryland (as the case may be) from all obligations and liabilities thereunder. In the event that, on or prior to the Offer Purchase Date, the parties are unable to obtain any required consent or approval in connection with such assumption of Private Indebtedness, the Company shall, on or prior to the Offer

Purchase Date, prepay, redeem, purchase or defease in full all such Private Indebtedness.

(c) On or prior to the Offer Purchase Date, Spinco shall execute a supplemental indenture or other document satisfactory in form to any applicable trustee pursuant to which it shall expressly assume the due and punctual payment, performance and observance, pursuant to the terms thereof, jointly and severally with the Company, of all of the obligations, covenants, conditions and agreements contained in each of the debt obligations of the Company set forth in Section 2.4(c) of the Disclosure Schedule and the related indentures and other ancillary agreements related thereto (the "Public Indebtedness" and, collectively with the Private Indebtedness, the "Company Indebtedness"). Notwithstanding the assumption by Spinco of such Public Indebtedness, the Company will not be released from, and will remain a party to, and will be jointly and severally liable with Spinco under, such Public Indebtedness, until such time as any consent required to effect such release shall have been obtained. As between Spinco and the Company, (i) Spinco shall (A) pay to the holders of such Public Indebtedness, in accordance with the terms thereof, all principal, interest and other amounts owing to the holders of such

Public Indebtedness, (B) deposit with the Exchange Agent (as such term is defined in the Armor All Indenture) from time to time additional Exchange Property as required under Section 15.5 of the Armor All Indenture, and (C) pay, reimburse and indemnify the trustee for its reasonable services, expenses, disbursements, advances, losses, liabilities or expenses as provided in Section 8.6 of the Armor All Indenture and Section 6.6 of the Unlimited Indenture, and (ii) each of Spinco and the Company shall perform and abide by all other obligations, covenants, conditions and agreements applicable to it thereunder and under the Public Indentures. With respect to such Public Indebtedness, neither the Company nor Spinco shall seek or agree to any amendments, consents or waivers or execute any supplemental indentures with respect thereto, without the prior written consent of the other party (which consent shall not be unreasonably withheld). The Company and Spinco shall take such action and execute such agreements, documents or instruments, as the other party may reasonably request, in connection with the fulfillment of any such party's obligations under the Public Indebtedness. Promptly upon receipt by the Company or Spinco or any of their representatives of any notices, demands or other communications from or on

behalf of the holders of the Public Indebtedness (or any trustee thereunder), such party shall deliver copies of such communications to the other party.

(d) Spinco agrees to indemnify, defend and hold harmless the Company and each of its directors, officers, employees, representatives, advisors, agents, and Affiliates, in accordance with the indemnification provisions of Article V hereof, from and against any and all Indemnifiable Losses of the Company or any of such other parties arising out of or resulting from any failure by Spinco to pay when due any principal, interest or other amounts owing under the Public Indebtedness or any failure by Spinco to perform and abide by all other obligations, covenants, conditions and agreements applicable to it under such Public Indebtedness. The Company agrees to indemnify, defend and hold harmless Spinco and each of its directors, officers, employees, representatives, advisors, agents and Affiliates, in accordance with the indemnification provisions of Article V hereof, from and against any and all Indemnifiable Losses of Spinco or any of such other parties arising out of or resulting from any failure by the Company to perform and abide by all obligations, covenants, conditions and agreements applicable to it under the Public Indebtedness

(other than the obligations to pay when due any principal, interest or other amounts owing thereunder or under the Public Indentures).

(e) The Company and Spinco agree, promptly following consummation of the Merger (unless required to do so prior to the Offer Purchase Date, in which case the following actions shall be taken prior to the Offer Purchase Date), to use their respective best efforts to take or cause to be taken all actions, and to do or cause to be done all things, necessary, proper or advisable under the terms of the agreements governing the Public Indebtedness and the provisions of applicable law (including, without limitation, preparing and filing with the SEC any required registration statements, consent solicitation or exchange offer documentation and other relevant materials, mailing to the holders of the Public Indebtedness all relevant consent and other materials, entering into any required supplemental indentures and, on the part of Spinco, offering to pay and paying any reasonable fees to the holders of such Public Indebtedness in connection with such solicitation or offer), which may be appropriate or required in order to effect the release of the Company from all obligations and liabilities under the Public Indebtedness. Spinco shall

bear all costs incurred in connection with seeking to effect such release of the Company from such obligations and liabilities, including, without limitation, the reasonable, documented out-of-pocket expenses of the Company relating thereto and to complying with its public filing requirements applicable to the Public Indebtedness prior to any such release.

Section 2.5. Preferred Stock Purchase Agreement. Prior to the Offer Purchase Date, the Company may, in its sole discretion, enter into a Preferred Stock Purchase Agreement with the Spinco PSIP or another third party (provided that such other party shall be reasonably satisfactory to Parent) (the "Preferred Stock Purchase Agreement"), pursuant to which, as contemplated by Section 2.13 of the Merger Agreement, the Spinco PSIP or such other person will acquire and pay for, prior to the Effective Time, and the Company will sell, upon the terms and subject to the conditions of the Preferred Stock Purchase Agreement, all of the shares of Spinco Preferred Stock held by the Company.

ARTICLE III

THE DISTRIBUTION

Section 3.1. Cooperation Prior to the Distribution. As promptly as practicable after the date hereof and prior to the Distribution Date:

(a) The Company and Spinco shall prepare, and the Company shall file with the SEC and mail to the holders of the equity securities of the Company, the Information Statement, which shall set forth appropriate disclosure concerning Spinco and its subsidiaries, the Company Business, the Distribution and certain other matters. The Company and Spinco shall also prepare, and Spinco shall file with the SEC, the Form 10 which shall include or incorporate by reference the Information Statement. The Company and Spinco shall use reasonable efforts to cause the Form 10 to be declared effective under the Exchange Act or, if the Company reasonably determines that the Distribution may not be effected without registering the Spinco Common Stock pursuant to the Securities Act, the Company shall use its best efforts to cause the Spinco Common Stock to be registered pursuant to the Securities Act and thereafter effect the Distribution in accordance with the terms of this Agreement, including, without limitation, by preparing and

filing on an appropriate form a registration statement under the Securities Act covering the Spinco Common Stock and using its best efforts to cause such registration statement to be declared effective.

(b) The Company and Spinco shall cooperate in preparing, filing with the SEC and causing to become effective any registration statements or amendments thereto which are appropriate to reflect the establishment of, or amendments to, any employee benefit and other plans contemplated by this Agreement.

(c) The Company and Spinco shall take all such action as may be necessary or appropriate under state securities or "Blue Sky" laws in connection with the transactions contemplated by this Agreement.

(d) The Company and Spinco shall prepare, and Spinco shall file and seek to make effective, an application to permit listing of the Spinco Common Stock either on the NYSE or any other national securities exchange as selected by Spinco in its sole discretion.

(e) In addition to the actions specifically provided for elsewhere in this Agreement, each of the parties hereto shall use its best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things, reasonably necessary, proper or advis-

able under applicable laws, regulations and agreements to consummate and make effective the transactions contemplated by this Agreement, including, without limitation, using its best efforts to obtain the consents and approvals, to enter into any amendatory agreements and to make the filings and applications necessary or desirable to have been obtained, entered into or made in order to consummate the transactions contemplated by this Agreement.

Section 3.2. The Distribution.

(a) The Company's Board of Directors (or any duly appointed committee thereof) shall in its sole discretion establish the Record Date and the Distribution Date and any appropriate procedures in connection with the Distribution (subject in each case to the provisions of applicable law);

provided that in no event shall the Distribution occur prior to such time as (i) the Purchaser shall have purchased shares of Company Common Stock pursuant to the terms and conditions of the Offer as set forth in the Merger Agreement, (ii) the Form 10 (or the registration statement referred to in Section 3.1(a) hereof) shall have been declared effective by the SEC and (iii) the Spinco Common Stock shall have been accepted

for listing or quotation in accordance with Section 3.1(d) hereof.

(b) Subject to Section 10.1 hereof, following the Record Date and the consummation of the Offer but prior to the Distribution Date, the Company shall deliver to the Agent one or more share certificates representing all of the outstanding shares of Spinco Common Stock to be distributed in the Distribution and shall instruct the Agent, subject to Section 8.2(d) hereof, to distribute on the Distribution Date, one share of Spinco Common Stock for each share of Company Common Stock held to holders of record of Company Common Stock on the Record Date. Spinco agrees to provide all share certificates that the Agent shall require in order to effect the Distribution. All shares of Spinco Common Stock issued in the Distribution shall be duly authorized, validly issued, fully paid, non-assessable and free of preemptive rights.

(c) Immediately upon consummation of the Distribution, the Company shall not hold or beneficially own directly or indirectly any shares of Spinco Common Stock.

Section 3.3. Company Approval of Certain Spinco Actions. Unless otherwise provided in this Agreement, the Company and Maryland shall cooperate with Spinco and its subsidiaries in effecting, and if so requested by Spinco the Company shall, as the sole stockholder of Spinco, ratify any actions that are reasonably necessary or desirable to be taken by Spinco to effectuate the transactions contemplated by this Agreement in a manner consistent with the terms of this Agreement, including, without limitation, the following: (a) the preparation and approval of the Certificate of Incorporation and By-laws of Spinco to be in effect at the Distribution Date; (b) the election or appointment of directors and officers of Spinco to serve in such capacities following the Distribution Date; (c) the adoption, preparation and implementation of appropriate plans, agreements and arrangements for Spinco Employees and Spinco non-employee directors (including, without limitation, plans, agreements or arrangements pursuant to which securities of Spinco would be acquired by Spinco Employees and plans required to implement the matters referred to in Section 8.2 hereof); (d) the registration under applicable securities laws of any securities of Spinco issued or distributed pursuant to Section 3.2 hereof; and (e) the

adoption of a shareholder rights plan pursuant to which holders of Spinco Common Stock would receive as a dividend a right entitling certain such holders, under certain circumstances, to purchase additional Spinco Common Stock or stock in an entity which acquires Spinco.

Section 3.4. Termination of Certain Claims. Following the Offer Purchase Date, Spinco shall have no claims against the Company based on any breach by the Company or its Affiliates of any obligations under this Agreement that occurred prior to the Offer Purchase Date, all of such claims being hereby irrevocably waived and terminated as of the Offer Purchase Date; provided that the foregoing shall not limit the Company's liability for any breach by the Company or its Affiliates of any obligations under this Agreement that occurs following the Offer Purchase Date, including, without limitation, the Company's obligation to indemnify Spinco as set forth herein.

ARTICLE IV
INTERCOMPANY BUSINESS RELATIONSHIPS

Section 4.1. Settlement of Intercompany Accounts; Net Working Capital Adjustment.

(a) Except as expressly provided for in this Article IV, all intercompany receivables, payables,

loans, cash overdrafts and other accounts in existence as of the Offer Purchase Date between Prescription, CPA and their subsidiaries, on the one hand, and the Company and its subsidiaries (other than Prescription, CPA and their subsidiaries), on the other hand, under the Company's cash management program or otherwise (other than accounts, if any, relating to intercompany contractual or other obligations which are contemplated to survive the Distribution pursuant to Section 4.2 or 4.4 hereof), shall be cancelled and settled in full pursuant to the provisions of this Section 4.1. Following the date hereof, all such intercompany transactions shall be conducted in a manner consistent with past practice.

(b) In the event that the Negative Net Working Capital (as defined in paragraph (e) below) as of the close of business on the Offer Purchase Date (i) is greater than $70,000,000, then Spinco shall pay the Company a cash amount equal to the amount by which the Negative Net Working Capital is greater than $70,000,000 or (ii) is less than $70,000,000, then the Company shall pay Spinco a cash amount equal to the amount by which the Negative Net Working Capital is less than $70,000,000. Such payment shall be made within ten business days after delivery of the Final Statement (as defined in paragraph

(d) below) by wire transfer in immediately available funds of the amount of such difference as determined pursuant to the preceding sentence, together with interest thereon from the Offer Purchase Date to the date of payment calculated based on the thirty-day AA composite commercial paper rate (as last published by the Federal Reserve prior to the Offer Purchase Date).

(c) Within 60 days after the Offer Purchase Date, Spinco shall prepare and deliver to the Company a statement (the "Working Capital Statement") setting forth the Negative Net Working Capital as of the Offer Purchase Date, which Working Capital Statement shall, except as otherwise set forth herein, be prepared on a basis consistent with the prior practices and methods employed by the Prescription Business in the preparation of the Prescription Financial Statements (as defined in Section 4.7(b) of the Merger Agreement). Following the Offer Purchase Date, each of the Company and Spinco shall give the other party and any independent auditors of such other party full access at all reasonable times to the properties, books, records and personnel of the Prescription Business relating to periods prior to the Offer Purchase Date for purposes of preparing and reviewing the Working Capital Statement and determining the

amount of Negative Net Working Capital. The Company shall have 30 days following delivery to the Company of the Working Capital Statement during which to notify Spinco of any dispute of any item contained in the Working Capital Statement, which notice shall set forth in reasonable detail the basis for such dispute. If the Company fails to notify Spinco of any such dispute within such 30-day period, the Working Capital Statement shall be deemed to be the "Final Statement". In the event that the Company shall so notify Spinco of any dispute, the Company and Spinco shall cooperate in good faith to resolve such dispute as promptly as practicable.

(d) If the Company and Spinco are unable to resolve any such dispute within 30 days of the Company's delivery of such notice, such dispute shall be resolved by a "big six" independent accounting firm, jointly selected by the parties. If Spinco and the Company cannot agree on such accounting firm to be retained, Spinco and the Company shall each submit the name of a "big six" independent accounting firm that does not at the time and has not in the prior two years provided services to Spinco, the Company, the Purchaser or Parent, and the firm shall be selected by lot from these two firms. The independent accounting firm so retained (the

"Independent Accounting Firm") shall make its determination as promptly as practicable and such determination shall be final and binding on the parties and shall be deemed a final arbitration award that is enforceable pursuant to all terms of the Federal Arbitration Act, 9 U.S.C. (S)(S) 1 et seq. The expenses relating to the engagement of the Independent Accounting Firm shall be shared equally by the Company and Spinco. The Working Capital Statement, as may be modified by resolution of any disputes by the Company and Spinco or by the Independent Accounting Firm pursuant hereto, shall be the "Final Statement".

(e) For purposes of this Section 4.1, (i) the term "Negative Net Working Capital" shall mean the sum of (x) the aggregate amount of the Adjusted Current Liabilities, minus (y) the aggregate amount of the Adjusted Current Assets (as such amounts are set forth in the Final Statement); (ii) the term "Adjusted Current Assets" shall mean the receivables of the Prescription Business as of the Offer Purchase Date (as reduced to reflect all allowances or reserves for doubtful accounts set forth on the Prescription Financial Statements); and (iii) the term "Adjusted Current Liabilities" shall mean the following current liabilities of the Prescription

Business as of the Offer Purchase Date: (A) all drafts payable, (B) all claims payable and (C) all deposits placed by third parties with the Prescription Business (except for credit deposits, which shall be separately provided for in the Credit Deposit Receivable (as defined in paragraph (g) below)). The parties agree that no claim for indemnification under this Agreement may be made by any party hereto with respect to any matters or categories of items relating to or reflected in the Negative Net Working Capital adjustment covered by this Section 4.1.

(f) For illustrative purposes, set forth below is an example of the calculations described in Section 4.1 (b) hereof, which sets forth how such amounts would be calculated if March 31, 1994 were the applicable Offer Purchase Date:

March 31, 1994 Sample Working Capital Statement

(numbers in thousands)

Adjusted Current Liabilities	
Drafts payable	$ 48,918
Claims payable	250,390
Deposits (ex credit deposits)	16,385
Subtotal	$315,693
Adjusted Current Assets	
Receivables (on a net basis)	$292,192
Negative Net Working Capital	
Total	$ 23,501

Amount Due Spinco (Parent)	
Amount per (S)4.1(b)	70,000
Negative Net Working Capital	23,501
Amount Due Spinco (Parent)	$ 46,499

(g) The parties hereto acknowledge and agree that the Prescription Business shall have reflected on its books as of the Offer Purchase Date a receivable owing from Spinco (the "Employee Benefit Receivable"), which shall be equal to the sum of (i) the Present Value (as defined below) of the aggregate fair market value as of the Record Date of all Stock Options (as defined in the Merger Agreement) (net of any exercise price thereof) which are (a) outstanding on the date hereof, (b) not exercisable immediately prior to the Record Date and (c) held by any Retained Employee (as defined in Section 6.9 of the Merger Agreement); (ii) the Present Value of the aggregate fair market value (the "Restricted Share Value") as of the Record Date of all Shares (as defined in the Merger Agreement) granted under the 1988 Plan (as defined in the Merger Agreement) (a) which are outstanding on the date hereof, (b) the restrictions on which have not lapsed on or prior to the Offer Purchase Date and (c) which are held by any Retained Employee; and (iii) the Present Value of the 1.45% tax on Medicare

hospital insurance imposed by FICA with respect to the Stock Options referred to in clause (i) above and the Restricted Share Value; provided that the amounts set forth in clauses (i), (ii) and (iii) above shall be reduced by the Present Value of the tax benefits to be realized by the Company following the Offer Purchase Date with respect to the amounts set forth in clauses (i), (ii) and (iii) above; provided further that all determinations of fair market value pursuant to this Section 4.1(g) shall be reasonably made by the Company's Board of Directors based on consultation with its financial advisor; provided further that in calculating any amount with respect to the Stock Options referred to in clause (i) above, such calculation shall assume the exercise of one-third of such options at the end of each year of the three-year period immediately following the Offer Purchase Date. For purposes hereof, the term "Present Value" shall refer to the present value of a particular item, calculated on the basis of an annual discount rate of 6.00%. The parties hereto acknowledge and agree that the Prescription Business shall also have reflected on its books as of the Offer Purchase Date a receivable owing from Spinco (the "Credit Deposit Receivable"), which shall be equal to all credit deposits of the Prescription Business as of

the last business day of the month ending immediately prior to the Offer Purchase Date. Spinco shall pay to the Company immediately following the Distribution Date a cash amount equal to the aggregate amount of the Employee Benefit Receivable and the Credit Deposit Receivable.0

Section 4.2. Ongoing or Transition Services. Following the Offer Purchase Date, Spinco will continue to provide to the Company and its Subsidiaries any or all data processing, financial, tax, accounting, legal, insurance, banking, cash management (including the Company's cash management program), personnel, employee benefits, communications and similar staff and services (collectively, "Services") currently being provided by the Company and its subsidiaries (other than Spinco and its subsidiaries), on the one hand, to the Prescription Business, as the Company shall request, except that the Company shall have the right to not accept or to terminate any Services at any time upon 30 days prior written notice to Spinco. Such Services shall be provided at cost bases consistent with those costs included in the fiscal 1994 income statement included in Section 4.7(b) of the Disclosure Schedule to the Merger Agreement. Spinco will provide the Services for a period of up to one year following the Offer Purchase Date (subject to

the Company's right to terminate any Services at any time upon 30 days prior written notice to Spinco). At the request of Spinco, the Company will enter into an agreement satisfactory to Spinco, the Company and Parent with respect to the provision of any Services that the Company may request.

Section 4.3. Shared Assets. Subject to the provisions of the Services Agreements, any Assets, operations or personnel which are being used in both the regular course of the Company Business and the Prescription Business shall be shared as set forth herein but shall be deemed Company Assets and transferred in accordance with this Agreement. Subject to the provisions of the Services Agreements, Spinco shall continue to provide such Assets, operations or personnel to the Company or its subsidiaries for use in its business to substantially the same extent as used therein prior to the Offer Purchase Date and at the same cost charged prior to the Offer Purchase Date; to the extent that the use of any such Assets, operations or personnel is discontinued after the Offer Purchase Date, the charges therefor shall also be discontinued. Each of the Company and Spinco will use its best efforts, and will cooperate fully with the other, to reduce the need for dual use of such As-

sets, operations or personnel and in no event will either party be required to provide the same to the other after the first anniversary of the Offer Purchase Date. To the extent that Spinco transfers to a third party any of the Assets, operations or personnel shared with the Company or its subsidiaries pursuant to the provisions hereof, Spinco will cause the transferee of such Assets, operations or personnel to specifically assume its obligations under this Section 4.3 with respect to such Assets, operations or personnel and will use its best efforts to cause such transferee to fulfill such obligations, but no such assumption shall relieve Spinco of any such obligations. The Company agrees that such transferee may exercise all of Spinco's rights hereunder with respect to such Assets, operations or personnel.

Section 4.4. Other Intercompany Arrangements. In addition to the Services Agreements, to the extent that the Company Business and the Prescription Business are now providing or selling to the other any services or products in the ordinary course of business, pursuant to any agreement or understanding whatsoever, then, except as set forth in Section 4.4 of the Disclosure Schedule, such agreement or understanding shall not be deemed altered, amended or terminated as a result of this Agree-

ment or the consummation of the transactions contemplated hereby.

Section 4.5. Settlements for Cash Collections and Disbursements.

(a) For each calendar month commencing with the month in which the Offer Purchase Date occurs and, unless sooner terminated by agreement of the parties, continuing for a period of one year thereafter, (i) the Company shall prepare, and Spinco shall fully cooperate in preparing, a statement of transactions which shall reflect a complete analysis of any cash collections and cash disbursements by the Company and its subsidiaries on behalf of Spinco and its subsidiaries (including those relating to the Company Business) during the relevant month (provided that, with respect to the first such monthly period such statement shall not reflect any cash collections or disbursements occurring prior to the Offer Purchase Date) and (ii) Spinco shall prepare, and the Company shall fully cooperate in preparing, a statement of transactions which shall reflect a complete analysis of any cash collections and cash disbursements by Spinco and its subsidiaries on behalf of the Company and its subsidiaries during the relevant month (including those relating to the Prescription Business).

(b) Not later than twenty business days following delivery of such statements, Spinco shall pay to the Company or the Company shall pay to Spinco, as the case may be, in cash an amount necessary to eliminate the account balance as reflected in each such statement. Payments made pursuant to this Section 4.4 shall not, for any purposes of this Agreement, constitute Indemnifiable Losses or be set off against any other payments to be made, Liabilities asserted or claims made pursuant to this Agreement, including but not limited to Section 5.4 hereof, unless the Company and Spinco otherwise agree in writing.

ARTICLE V
SURVIVAL AND INDEMNIFICATION

Section 5.1. Survival of Agreements. The obligations under this Article V of each of Spinco and its subsidiaries, on the one hand, and the Company and its subsidiaries, on the other hand, shall survive the sale or other transfer by it of any Assets or businesses or the assignment by it of any Liabilities. To the extent that the Company or its subsidiaries transfers directly or indirectly to any other person all or substantially all of the Prescription Assets or the Prescription Business or assigns any of the Prescription

Liabilities (except for such amounts of the Prescription Liabilities which are not material individually or in the aggregate), the Company will cause the transferee of such Prescription Assets or Prescription Business to assume specifically its obligations under this Agreement with respect thereto and will cause such transferee to fulfill its obligations related to such Prescription Liabilities. Such assumption will not relieve the Company of its obligations in respect thereof. To the extent that Spinco or its subsidiaries transfers directly or indirectly to any other person all or substantially all of the Company Assets or the Company Business or assigns any of the Company Liabilities (except for such amounts of the Company Liabilities which are not material individually or in the aggregate), Spinco will cause the transferee of such Company Assets or Company Business to assume specifically its obligations under this Agreement with respect thereto and will cause such transferee to fulfill its obligations related to such Company Liabilities. Such assumption will not relieve Spinco of its obligations in respect thereof. Spinco, on the one hand, and the Company, on the other hand, agree that such transferee may exercise all of Spinco's or the Company's

rights hereunder, as the case may be, with respect to such Assets or businesses.

Section 5.2. Spinco's Agreement to Indemnify.

(a) In addition to any indemnification required by Sections 6.2 or 8.5 hereof, subject to the terms and conditions set forth herein, from and after the Offer Purchase Date, Spinco shall indemnify, defend and hold harmless the Company, the Purchaser and Parent and each of their respective directors, officers, employees, representatives, advisors, agents and Affiliates (collectively, the "Parent Indemnities") from and against any and all Indemnifiable Losses of the Parent Indemnities arising out of or resulting from, directly or indirectly (i) any breach of any representation or warranty contained in Article IV or in Section 9.11 of the Merger Agreement (without giving effect to any materiality qualifications set forth therein), (ii) any breach by the Company of the covenants and agreements set forth in the Merger Agreement, and (iii) all Company Liabilities.

(b) Spinco's obligations to indemnify Parent Indemnities pursuant to Section 5.2(a) hereof are subject to the following limitations:

(i) No indemnification shall be made by Spinco pursuant to Section 5.2(a)(i) hereof unless the aggregate amount of Indemnifiable Losses incurred by the Parent Indemnities exceeds $10,000,000, and, in such event, indemnification pursuant to Section 5.2(a)(i) shall be made by Spinco only to the extent that the aggregate amount of such Indemnifiable Losses exceeds $10,000,000;

(ii) In no event shall Spinco's aggregate obligation to indemnify the Parent Indemnities pursuant to Sections 5.2(a)(i) and (ii) exceed $200,000,000 (except that the foregoing limitation shall not apply to any Indemnifiable Losses arising out of any willful breach of the covenants and agreements set forth in the Merger Agreement);

(iii) Spinco shall be obligated to indemnify the Parent Indemnities only for those Indemnifiable Losses under clauses (i) or (ii) of Section 5.2(a) hereof as to which the Parent Indemnities have given Spinco written notice thereof on or prior to nine months after the Offer Purchase Date. Any written notice delivered by a Parent Indemnitee to Spinco with respect to Indemnifiable Losses shall set forth with as much specificity as

is reasonably practicable the basis of the claim and, to the extent reasonably practicable, a reasonable estimate of the amount thereof.

(iv) The amount of any Indemnifiable Losses shall be reduced by any amount received by a Parent Indemnitee with respect thereto under any insurance coverage (net of any costs of such coverage incurred by such Parent Indemnitee) or from any other party alleged to be responsible therefor. The Parent Indemnitee shall use reasonable efforts to collect any amounts available under such insurance coverage and from such other party alleged to have responsibility (the expenses of such efforts to be deemed to be Indemnifiable Losses). If a Parent Indemnitee receives an amount under insurance coverage or from such other party with respect to Indemnifiable Losses at any time subsequent to any indemnification provided pursuant to this Article V, then such Parent Indemnitee shall promptly reimburse Spinco for any payment made or expense incurred by it in connection with providing such indemnification up to such amount received by the Parent Indemnitee (net of any costs of such coverage or of obtaining

such amount from another party incurred by such Parent Indemnitee);

(v) A Parent Indemnitee shall pay to Spinco the amount of any tax benefit relating to any Indemnifiable Losses hereunder promptly after such tax benefit is actually realized; provided that in the event that such tax benefit of the Parent Indemnitee is subsequently disallowed, Spinco shall pay to such Parent Indemnitee the amounts that were paid to it originally as a result of such tax matter.

Section 5.3. The Company's Agreement to Indemnify.

(a) In addition to any indemnification required by Sections 6.2 or 8.5 hereof, subject to the terms and conditions set forth herein, from and after the Offer Purchase Date, the Company shall indemnify, defend and hold harmless Spinco and each of its directors, officers, employees, representatives, advisors, agents and Affiliates (collectively, the "Spinco Indemnities") from and against any and all Indemnifiable Losses of the Spinco Indemnities arising out of or resulting from, directly or indirectly (i) any breach by Parent or the Purchaser of any representation or warranty contained in Article V of the Merger Agreement (without giving effect

to any materiality qualifications set forth therein), (ii) any breach by Parent or the Purchaser of the covenants and agreements set forth in the Merger Agreement, and (iii) all Prescription Liabilities. Notwithstanding the foregoing and anything to the contrary in this Agreement or any other agreement to be entered into pursuant to this Agreement, the Company shall not be required to indemnify, defend and hold harmless any person specified in this Section 5.3(a) from and against any Indemnifiable Loss resulting from any claims that the statements included in the Information Statement, the Form 10 or in any registration statement filed pursuant to Section 3.1 or Section 3.3 hereof (in each case other than statements or omissions made in reliance upon and in conformity with information furnished in writing by Parent, the Purchaser or their Affiliates, representatives or advisors expressly for use therein) are false or misleading with respect to any material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) The Company's obligations to indemnify Spinco Indemnities pursuant to Section 5.3(a) hereof are subject to the following limitations:

(i) No indemnification shall be made by the Company pursuant to Section 5.3(a)(i) hereof unless the aggregate amount of Indemnifiable Losses incurred by the Spinco Indemnities exceeds $10,000,000, and, in such event, indemnification pursuant to Section 5.3(a)(i) hereof shall be made by the Company only to the extent that the aggregate amount of such Indemnifiable Losses exceeds $10,000,000;

(ii) In no event shall the Company's aggregate obligation to indemnify the Spinco Indemnities pursuant to Sections 5.3(a)(i) and (ii) hereof exceed $200,000,000 (except that the foregoing limitation shall not apply to any Indemnifiable Losses arising out of any willful breach of such covenants and agreements set forth in the Merger Agreement);

(iii) The Company shall be obligated to indemnify the Spinco Indemnities only for those Indemnifiable Losses under clauses (i) or (ii) of Section 5.3(a) hereof as to which the Spinco Indemnities have given the Company written notice thereof on or prior to nine months after the Offer Purchase Date. Any written notice delivered by a Spinco

Indemnitee to the Company with respect to Indemnifiable Losses shall set forth with as much specificity as is reasonably practicable the basis of the claim and, to the extent reasonably practicable, a reasonable estimate of the amount thereof.

(iv) The amount of any Indemnifiable Losses shall be reduced by any amount received by a Spinco Indemnitee with respect thereto under any insurance coverage (net of any costs of such coverage incurred by such Spinco Indemnitee) or from any other party alleged to be responsible therefor. The Spinco Indemnitee shall use reasonable efforts to collect any amounts available under such insurance coverage and from such other party alleged to have responsibility (the expense of such efforts to be deemed to be Indemnifiable Losses). If a Spinco Indemnitee receives an amount under insurance coverage or from such other party with respect to Indemnifiable Losses at any time subsequent to any indemnification provided by the Company pursuant to this Article V, then such Spinco Indemnitee shall promptly reimburse the Company for any payment made or expense incurred by it in connection with providing such indemnification up to such amount received

by the Spinco Indemnitee (net of any costs of such coverage or of obtaining such amount from another party incurred by such Spinco Indemnitee);

(v) A Spinco Indemnitee shall pay to the Company the amount of any tax benefit relating to any Indemnifiable Losses hereunder promptly after such tax benefit is actually realized; provided that in the event that such tax benefit of the Spinco Indemnitee is subsequently disallowed, the Company shall pay to such Spinco Indemnitee the amounts that were paid to it originally as a result of such tax matters.

Section 5.4. Procedure for Indemnification.

(a) If a Parent Indemnitee or a Spinco Indemnitee (either, an "Indemnitee") shall receive notice of the assertion by a person who is not a party to this Agreement of any claim or of the commencement by any such person of any Action (a "Third Party Claim") with respect to which Spinco or the Company, as the case may be, is obligated to provide indemnification (an "Indemnifying Party"), such Indemnitee shall give such Indemnifying Party prompt notice thereof after becoming aware of such Third Party Claim; provided that the failure of any Indemnitee to give notice as provided in this Section 5.4

shall not relieve the related Indemnifying Party of its obligations under this Article V, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe the Third Party Claim in reasonable detail, and, if practicable, shall indicate the estimated amount of the Indemnifiable Loss that has been or may be sustained by such Indemnitee.

(b) An Indemnifying Party may elect to defend, compromise and settle, at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, any Third Party Claim. If an Indemnifying Party elects to defend a Third Party Claim, it shall, within 15 days of notice of such Third Party Claim (or sooner, if the nature of such Third Party Claim so requires), notify the related Indemnitee of its intent to do so, and such Indemnitee shall cooperate in the defense of such Third Party Claim. Such Indemnifying Party shall pay such Indemnitee's actual reasonable out-of-pocket expenses incurred in connection with such cooperation. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third Party Claim, such Indemnifying Party shall not be liable to such Indemnitee under this Article V for any legal or other

expenses subsequently incurred by such Indemnitee in connection with the defense thereof; provided that (i) if, under applicable standards of professional conduct (as advised by counsel to the Indemnifying Party), a conflict on any significant issue between such Indemnitee and such Indemnifying Party or between any two or more Indemnities exists in respect of such claim, in that event the Indemnifying Party shall pay the reasonable fees and expenses of one such additional counsel as may be required to be retained in order to resolve such conflict. If an Indemnifying Party elects not to defend against a Third Party Claim, or fails to notify an Indemnitee of its election as provided in this Section 5.4, such Indemnitee may defend, compromise and settle such Third Party Claim. Notwithstanding the foregoing, (i) neither an Indemnifying Party nor an Indemnitee, as the party controlling the defense of a Third Party Claim, may compromise or settle any claim or consent to the entry of any judgment for other than monetary damages without the prior written consent of the other; provided that (upon reasonable notice thereof) consent to compromise or settlement or the entry of a judgment shall not be unreasonably withheld or delayed, and (ii) no Indemnifying Party shall consent to the entry of any judgment or enter

into any compromise or settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnitee and all other Spinco Indemnities or Parent Indemnities, as the case may be, subject to such Third Party Claim of a full and final release from all liability in respect to such claim or litigation.

(c) Any claim on account of an Indemnifiable Loss which does not result from a Third Party Claim shall be asserted by written notice given by the related Indemnitee to the related Indemnifying Party. Such Indemnifying Party shall have a period of 30 days within which to respond thereto. If such Indemnifying Party does not respond within such 30 days' period, such Indemnifying Party shall be deemed to have accepted responsibility to make payment, subject to the provisions of this Section 5.4, and shall have no further right to contest the validity of such claim. If such Indemnifying Party does respond within such 30 days' period and rejects such claim in whole or in part, such Indemnitee shall be free to pursue such remedies as may be available to such party under applicable law.

Section 5.5. Pending Litigation. Following the Offer Purchase Date, (a) the Company shall have exclusive authority and control over the investigation, prosecution, defense and appeal of all pending Actions relating primarily to the Prescription Business, the Prescription Assets or the Prescription Liabilities (each, a "Prescription Action"), and may settle or compromise, or consent to the entry of any judgment with respect to, any such Action without the consent of Spinco, and (b) Spinco shall have exclusive authority and control over the investigation, prosecution, defense and appeal of all pending Actions relating primarily to the Company Business, the Company Assets or the Company Liabilities (each, a "Company Action"), and may settle or compromise, or consent to the entry of any judgment with respect to, any such Action without the consent of the Company; provided that neither the Company nor Spinco (nor any of their respective subsidiaries) may settle or compromise, or consent to the entry of any judgment with respect to, any such Action without the prior written consent of the other party if such settlement, compromise or consent to such judgment (i) includes any form of injunctive relief binding upon such other party or (ii) does not include as an unconditional term thereof the giving by the claimant

or plaintiff to such other party (and any related party of such other party subject to such Action) of a full and final release from all liability in respect to such claim or litigation. Each of the Company and Spinco shall indemnify, defend and hold harmless the other party, and Spinco shall indemnify and hold harmless Parent and Purchaser, in the manner provided in this Article V, and each of such Indemnitee's directors, officers, employees, representatives, advisors, agents and Affiliates from and against all Indemnifiable Losses arising out of or resulting from each such Action over which such indemnifying party has authority and control.

Section 5.6. Construction of Agreements. Notwithstanding any other provision in this Agreement to the contrary, in the event and to the extent that there shall be a conflict between the provisions of this Article V and the provisions of any other part of this Agreement or any exhibit or schedule hereto (other than the Tax Sharing Agreement), the provisions of this Article V shall control, and in the event and to the extent that there shall be a conflict between the provisions of this Agreement and the provisions of the Tax Sharing Agreement, the provisions of the Tax Sharing Agreement shall control.

ARTICLE VI
CERTAIN ADDITIONAL MATTERS

Section 6.1. No Representations or Warranties; Exceptions.

(a) It is the explicit intent of each party hereto and of Parent and the Purchaser that no party to this Agreement or to the Merger Agreement is making any representation or warranty whatsoever, express or implied, in this Agreement, the Merger Agreement or the Ancillary Agreements (as defined in the Merger Agreement) or in any other agreement contemplated hereby or thereby, except those representations and warranties expressly set forth in Articles IV and V of the Merger Agreement and in this Section 6.1. Parent, the Purchaser, the Company and Spinco agree, to the fullest extent permitted by law, that none of them or any of their directors, officers, employees, affiliates, controlling persons, agents or representatives shall have any liability or responsibility whatsoever to any such other entity or such other entity's directors, officers, employees, affiliates, controlling persons, agents or representatives on any basis (including, without limitation, in contract or tort, under federal or state securities laws or otherwise) based upon any information provided or made

available, or statements made, to any such other entity or such other entity's directors, officers, employees, affiliates, controlling persons, agents or representatives (or any omissions therefrom), including, without limitation, in respect of the specific representations and warranties set forth in this Agreement and the Merger Agreement and the covenants and agreements set forth in the Merger Agreement, except (i) as and only to the extent expressly set forth herein and in the Merger Agreement with respect to such representations and warranties, and as set forth herein or in the Merger Agreement with respect to such covenants and agreements, and rights to indemnification and subject to the limitations and restrictions contained herein and therein, and (ii) with respect to breaches of the covenants and agreements set forth in this Agreement.

(b) Without limiting the generality of the foregoing, it is understood and agreed (a) that neither the Company nor any of its subsidiaries is, in this Agreement or in any other agreement or document contemplated by this Agreement, representing or warranting in any way as to the value or freedom from encumbrance of, or any other matter concerning, any Company Assets, (b) that the Company Assets are being transferred "as is,

where is" and (c) that, subject to the obligations of the Company set forth in Sections 2.1(b) and 6.2 hereof, Spinco shall bear the risk that any conveyances of Company Assets might be insufficient or that Spinco's or any of its subsidiaries' title to any Company Assets shall be other than good and marketable and free from encumbrances. Similarly, it is understood and agreed that neither the Company nor any of its subsidiaries is, in this Agreement or in any other agreement or document contemplated by this Agreement, representing or warranting to Spinco in any way that the obtaining of the consents and approvals, the execution and delivery of any amendatory agreements and the making of the filings and applications contemplated by this Agreement shall satisfy the provisions of all applicable agreements or the requirements of all applicable laws or judgments.

(c) Spinco represents and warrants to the Company that, except as set forth in Section 6.1(c) of the Disclosure Schedule, neither the Company nor any of its subsidiaries (other than Spinco and its subsidiaries) is, or will on the Offer Purchase Date be, liable directly or indirectly, as borrower, surety, guarantor or otherwise, with respect to (and that none of the Prescription Assets shall be bound by or subject to) any

indebtedness for borrowed money or capitalized lease obligation other than the Private Indebtedness and the Public Indebtedness.

Section 6.2. Further Assurances; Subsequent Transfers.

(a) To the extent that any of the transfers, distributions and deliveries required to be made pursuant to Article II shall not have been so consummated prior to the Distribution Date, the parties shall cooperate and use their best efforts at Spinco's reasonable expense to effect such consummation as promptly thereafter as reasonably practicable. Each of the parties hereto will execute and deliver such further instruments of transfer and distribution and will take such other actions as Spinco or any of its subsidiaries may reasonably request in order to effectuate the purposes of this Agreement and to carry out the terms hereof. Without limiting the generality of the foregoing, at any time and from time to time after the Distribution Date, at the request and reasonable expense of Spinco or any of its subsidiaries, the Company and its subsidiaries will execute and deliver such other instruments of transfer and distribution, and take such action as Spinco or any of its subsidiaries may reasonably deem necessary or

desirable in order to more effectively transfer, convey and assign to Spinco or any of its subsidiaries and to confirm Spinco's or any of its subsidiaries, as the case may be, right, title to or interest in, all of the Company Assets transferred pursuant to this Agreement, to put Spinco and its subsidiaries in actual possession and operating control thereof and to permit Spinco and its subsidiaries to exercise all rights with respect thereto (including, without limitation, rights under contracts and other arrangements as to which the consent of any third party to the transfer thereof shall not have previously been obtained) and to properly assume and discharge the related Company Liabilities.

(b) Except to the extent otherwise expressly provided for in Section 2.4 hereof, each of the Company and its subsidiaries will use its best efforts, at Spinco's expense, to obtain any consents required to transfer and assign to Spinco all agreements, leases, licenses and other rights of any nature whatsoever relating to the Company Assets. In the event and to the extent that the Company or any of its subsidiaries is unable to obtain any such required consents, (i) such entity (or any subsidiary that is a party thereto, as the case may be) shall continue to be bound thereby and (ii) Spinco

shall pay, perform and discharge fully all the obligations of such entity (or any subsidiary that is a party thereto, as the case may be) thereunder from and after the Distribution Date and indemnify such entity (or any subsidiary that is a party thereto, as the case may be) for all Indemnifiable Losses arising out of such performance by Spinco. The Company or such subsidiary, as the case may be, shall, without further consideration therefor, pay, assign and remit to Spinco promptly all monies, rights and other consideration received in respect of such performance. The Company or such subsidiary shall exercise or exploit its rights and options under all such agreements, leases, licenses and other rights and commitments referred to in this Section 6.2(b) only as reasonably directed by Spinco and at Spinco's expense. If and when any such consent shall be obtained or such agreement, lease, license or other right shall otherwise become assignable, the Company or such subsidiary, as the case may be, shall promptly assign all its rights and obligations thereunder to Spinco without payment of further consideration and Spinco shall, without the payment of any further consideration therefor, assume such rights and obligations.

(c) In the event that, subsequent to the Offer Purchase Date, the Company or its subsidiaries shall either (i) receive written notice from Spinco or any of its subsidiaries that certain specified Assets of the Company or its subsidiaries which properly constitute Company Assets were not transferred to Spinco on or prior to the Offer Purchase Date or (ii) determine that certain Assets of the Company or its subsidiaries which constitute Company Assets were not transferred to Spinco on or prior to the Distribution Date, then as promptly as practicable thereafter, the Company shall, and shall cause its subsidiaries to, take all steps reasonably necessary to transfer and deliver any and all of such Assets to Spinco or its subsidiaries at Spinco's reasonable expense but without the payment by Spinco of any consideration therefor. In the event that, subsequent to the Offer Purchase Date, Spinco or its subsidiaries shall either (i) receive written notice from the Company or any of its subsidiaries that certain specified Assets were transferred to Spinco or its subsidiaries which properly constitute Prescription Assets, or (ii) determine that certain Assets of Spinco or its subsidiaries which constitute Prescription Assets were transferred to Spinco, then as promptly as practicable thereafter, Spinco shall,

and shall cause its subsidiaries to, take all steps reasonably necessary to transfer and deliver any and all of such Assets to the Company or its subsidiaries at Spinco's reasonable expense without the payment by the Company of any consideration therefor.

Section 6.3. The Spinco Board. Spinco and the Company shall take all actions which may be required to elect or otherwise appoint, on or prior to the Distribution Date, those individuals that the Board of Directors of the Company (as in effect prior to the consummation of the Offer) may designate as directors of Spinco.

Section 6.4. Liability Insurance. Prior to the Offer Purchase Date, Spinco shall use its best efforts, and the Company shall cooperate with Spinco, to obtain, at Spinco's expense, directors' and officers' liability insurance, in amounts and upon terms reasonably satisfactory to Spinco, in respect of the service of directors, officers, employees and agents of the Company and its subsidiaries with the Company and its subsidiaries prior to the Distribution. In the event that such insurance cannot be obtained by Spinco on commercially reasonable terms, then the Company shall, at Spinco's request and expense, use its best efforts to maintain or obtain such insurance, in such amounts and having such

terms as Spinco may reasonably direct, and Spinco shall reimburse the Company for all out-of-pocket costs incurred by the Company in connection with obtaining and maintaining such insurance on behalf of Spinco's directors and officers.

Section 6.5. Use of Names. Following the Offer Purchase Date, the Company and its subsidiaries shall have the sole and exclusive ownership of and right to use, as between the Company and its subsidiaries, on the one hand, and Spinco and its subsidiaries, on the other hand, each of the names used in the Prescription Business and set forth on Section 6.5 of the Disclosure Schedule (the "Prescription Names"), and each of the trade marks, trade names, service marks and other proprietary rights related to such Prescription Names as set forth on Section 6.5 of the Disclosure Schedule (the "Prescription Proprietary Name Rights"). Following the Offer Purchase Date, Spinco and its subsidiaries shall have the sole and exclusive ownership of and right to use, as between Spinco and its subsidiaries, on the one hand, and the Company and its subsidiaries, on the other hand, all names used by the Company and its subsidiaries as of such date other than the Prescription Names (the "Company Names"), and all other trade marks, trade names,

service marks and other proprietary rights owned or used by the Company and its subsidiaries as of such date other than the Prescription Proprietary Name Rights (the "Company Proprietary Name Rights"). Following the Offer Purchase Date, the Company shall, and shall cause its subsidiaries and other Affiliates to, take all action necessary to cease using, and change as promptly as practicable (including by amending any charter documents), any corporate or other names which are the same as or confusingly similar to any of the Company Names or any of the Company Proprietary Name Rights.

ARTICLE VII
ACCESS TO INFORMATION AND SERVICES

Section 7.1. Provision of Corporate Records. Except as provided in the following sentence, on the Offer Purchase Date, the Company shall deliver to Spinco all corporate books and records which are corporate records of the Company, Spinco or their subsidiaries which relate primarily to the Company Assets, the Company Business or the Company Liabilities, including, without limitation, original corporate minute books, stock ledgers and certificates and corporate seals of each corporation the capital stock of which is included in the

Company Assets, and all active agreements, active litigation files and government filings. Notwithstanding the foregoing, the Company shall have the right to retain the original corporate minute books, stock ledgers and certificates and corporate seals of each of the Company, Maryland, Prescription and CPA, provided that it provides Spinco with copies of, and reasonable access to, such materials after the Offer Purchase Date. Also on the Offer Purchase Date, the Company shall provide to Spinco lists of trademarks, patents, copyrights and other intellectual property set forth in clause (iii) of the definition of "Assets" herein included in the Company Assets.

Section 7.2. Access to Information. From and after the Offer Purchase Date (i) Spinco shall afford to the Company and its authorized accountants, counsel and other designated representatives reasonable access (including, without limitation, using reasonable efforts to give access to persons or firms possessing Information (as defined below)) and duplicating rights during normal business hours to all records, books, contracts, instruments, computer data and other data and information (collectively, "Information") within Spinco's possession relating to the Prescription Assets, the Prescription Business and the Prescription Liabilities, insofar as

such access is reasonably required by the Company, and (ii) the Company shall afford to Spinco and its authorized accountants, counsel and other designated representatives reasonable access (including, without limitation, using reasonable efforts to give access to persons or firms possessing Information) and duplicating rights during normal business hours to all Information within the Company's possession relating to the Company Assets, the Company Business and the Company Liabilities. Information may be requested under this Article VII for, without limitation, audit, accounting, claims, litigation and tax purposes, as well as for purposes of fulfilling disclosure and reporting obligations.

Section 7.3. Production of Witnesses. From and after the Offer Purchase Date, each party shall use reasonable efforts to make available to the other party, upon written request, its officers, directors, employees and agents as witnesses to the extent that any such person may reasonably be required in connection with any legal, administrative or other proceedings in which the requesting party may from time to time be involved.

Section 7.4. Retention of Records. Except as otherwise required by law or agreed to in writing, Spinco and the Company shall each retain, for a period of at

least seven years following the Offer Purchase Date, all significant Information relating to (i) in the case of the Company, the Prescription Business and (ii) in the case of Spinco, the Company Business. Notwithstanding the foregoing, either Spinco or the Company may destroy or otherwise dispose of any of such Information at any time, provided that, prior to such destruction or disposal, (a) Spinco or the Company, as the case may be, shall provide no less than 90 or more than 120 days' prior written notice to the other party, specifying the Information proposed to be destroyed or disposed of and (b) if the other party shall request in writing prior to the scheduled date for such destruction or disposal that any of the Information proposed to be destroyed or disposed of be delivered to the other party, Spinco or the Company, as the case may be, shall promptly arrange for the delivery of such of the Information as was requested, at the expense of the other party.

Section 7.5. Confidentiality. Each party shall hold, and shall cause its officers, employees, agents, consultants and advisors to hold, in strict confidence, unless compelled to disclose by judicial or administrative process or, in the opinion of its counsel, by other requirements of law, all non-public Information

concerning the other party furnished it by such other party or its representatives pursuant to this Agreement (except to the extent that such Information can be shown to have been (a) available to such party on a non-confidential basis prior to its disclosure by the other party, (b) in the public domain through no fault of such party or (c) later lawfully acquired from other sources by the party to which it was furnished), and each party shall not release or disclose such Information to any other person, except its auditors, attorneys, financial advisors, bankers and other consultants and advisors who agree to be bound by the provisions of this Section 7.5. Each party shall be deemed to have satisfied its obligation to hold confidential Information concerning or supplied by the other party if it exercises the same care as it takes to preserve confidentiality for its own similar confidential Information.

ARTICLE VIII

EMPLOYEE BENEFITS; LABOR MATTERS

Section 8.1. Officers and Employees. The executive officers of the Company as of the date hereof shall be the executive officers of Spinco. Those Spinco Employees of the Company who are employed in the Company

Business immediately prior to the Offer Purchase Date shall become employees of Spinco in the same capacities.

Section 8.2. Employee Benefits.

(a) Except as provided in paragraph (b) of this Section 8.2, effective as of the Offer Purchase Date, Spinco shall assume each of the Company's funded "employee pension benefit plans" (as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), and each employment and severance agreement which the Company entered into, prior to the Distribution, with Spinco Employees. The Company and Spinco shall at Spinco's reasonable expense take all such action as may be necessary or appropriate in order to establish Spinco as successor to the Company as to all rights, duties, liabilities, and obligations under or with respect to each of such plans, including, but not limited to, the Company's rights, duties, liabilities and obligations under or with respect to any and all annuity or insurance contracts which form a part of such plans, together with the assets relating thereto; provided that the provisions of Section 6.9(b) of the Merger Agreement shall apply following the transfer described therein. Spinco shall succeed the Company as the sponsor of all employee benefit plans not specifically identified on

Section 8.2 of the Disclosure Schedule and agrees to indemnify and hold the Company harmless from and against all direct and indirect liabilities, claims, damages, obligations, payments, costs and expenses assessed against, resulting to, imposed upon or incurred by the Company, directly or indirectly, with respect to such employee benefit plans (other than any such liabilities, claims, damages, obligations, payments, costs and expenses relating to Prescription Employees; such liabilities, claims, damages, obligations, payments, costs and expenses shall be treated as Prescription Liabilities hereunder).

(b) Profit Sharing Investment Plan. Effective as of the Effective Time (as defined in the Merger Agreement), Spinco shall assume the Company's Profit Sharing Investment Plan, as amended (the "PSIP") in accordance with the terms of Section 6.9(c) of the Merger Agreement. The Company and Spinco shall at Spinco's expense take all such action as may be necessary or appropriate to cause Spinco to assume sponsorship and to establish Spinco as successor to the Company as to all rights, duties, liabilities, and obligations under or with respect to the PSIP; provided that the provisions of Section 6.9(c) of the Merger Agreement shall apply fol-

lowing the transfer described therein. In connection with the aforementioned assumption, all of the indebtedness of the Company (and guarantees made by the Company of the indebtedness of the trust established under the PSIP) relating to the unallocated shares of Company Common Stock and Company Convertible Preferred Stock held by the PSIP shall be assumed by Spinco, effective as of the Effective Time.

(c) Employee and Director Stock Options. Effective as of the Offer Purchase Date, Spinco shall adopt (and the Company, as sole shareholder of Spinco, shall approve) a stock option and restricted stock plan (the "Spinco Stock Plan") for the benefit of employees of Spinco (including Spinco Employees) and non-employee directors of Spinco (including those non-employee directors of the Company who, following the Distribution, will become non-employee directors of Spinco ("Non-Employee Directors")), which plan shall qualify under Rule 16b-3 promulgated under the Exchange Act. Options to acquire Company Common Stock which have been granted to Spinco Employees, Non-Employee Directors and employees and former employees of the Company (other than Spinco Employees) pursuant to any stock option plan of the Company and which are outstanding immediately prior to the Dis-

tribution ("Company Options") shall, pursuant to the equitable adjustment provisions of the applicable plan under which such options were granted and effective as of the Distribution Date, be treated as follows:

(i) Exercisable Options of Spinco Employees; Non-Employee Director Options. That portion of each Company Option held by a Spinco Employee (the "Spinco Employee Option") which is exercisable immediately prior to the Offer Purchase Date (the "Exercisable Option"), as well as all such Company Options granted or awarded to Non-Employee Directors (the "Director Options"), shall be converted into two separately exercisable options: a Company Option for the number of shares of Company Common Stock relating to the Exercisable Option or Director Option, as the case may be, and an option under the Spinco Stock Plan to acquire shares of Spinco Common Stock (a "Spinco Option") equal in number to the number of shares of Company Common Stock relating to the Exercisable Option or Director Option, as the case may be. The exercise price per share of the Exercisable Options and Director Options which, after conversion, relates to Company Common Stock shall be equal to the quotient obtained

by dividing (w) the exercise price per share of the Exercisable Option and Director Options prior to conversion (the "Pre-Conversion Exercise Price") by (x) the Company Conversion Factor (as hereinafter defined), and the exercise price per share of the Exercisable Option and Director Options which, after conversion, relates to Spinco Common Stock shall be equal to the quotient determined by dividing (y) the Pre-Conversion Exercise Price by (z) the Spinco Conversion Factor (as hereinafter defined); in each case the resulting exercise price per share shall be rounded up or down to the nearest cent. The "Company Conversion Factor" shall mean an amount equal to the quotient obtained by dividing (1) the sum of (A) the cash consideration payable per share of Company Common Stock pursuant to the Merger (the "Cash Consideration"), plus (B) the per share fair market value of Spinco Common Stock, determined based on the average closing price of Spinco Common Stock over the ten-consecutive-day trading period immediately following the Distribution Date (such per share fair market value being referred to as the "Spinco Value"), by (2) the Cash Consideration. The "Spinco Conversion Factor" shall mean an amount

equal to the quotient obtained by dividing (1) the sum of (A) the Cash Consideration plus (B) the Spinco Value, by (2) the Spinco Value. Each such Exercisable Option and Director Option (as so converted) shall otherwise be subject to the same terms and conditions as such Exercisable Option and Director Option (prior to such conversion), except that the portion of any Exercisable Option or Director Option which, after conversion, relates to Company Common Stock (other than any such portion held by a person who is, with respect to the Company, subject to the reporting requirements of Section 16 of the Exchange Act) shall not terminate by reason of the failure of such Spinco Employee or Non-Employee Director, as the case may be, to continue in the employ or as a director of the Company following the Distribution Date.

(ii) Non-Exercisable Options of Spinco Employees. That portion of each Spinco Employee Option which is not exercisable immediately prior to the Offer Purchase Date (the "Non-Exercisable Option") shall be converted into a Spinco Option whereby (A) the number of shares of Spinco Common Stock covered by the Spinco Option will be

determined by multiplying (1) the number of shares of Company Common Stock covered by the Non-Exercisable Option by (2) the Spinco Conversion Factor (which product shall be rounded downward to the nearest whole share), and (B) the exercise price of the Spinco Option shall be determined by dividing (1) the exercise price per share of the Non-Exercisable Option prior to conversion by (2) the Spinco Conversion Factor (which quotient shall be rounded up or down to the nearest cent). Such Spinco Option shall become vested and exercisable at the time when the Non-Exercisable Option was to become vested and exercisable according to its terms and shall otherwise be subject to the same terms and conditions as the Non-Exercisable Option (prior to conversion).

(iii) Options of Other Employees. All Company Options granted
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or awarded to employees or former employees of the Company (other than Spinco Employees) shall be equitably adjusted as of the Distribution Date. The number of shares of Company Common Stock relating to such Company Options after such adjustment shall equal the product of (A) the number of shares of Company Common Stock relating to such Company Options prior to such

adjustment and (B) the Company Conversion Factor, which product shall be rounded downward to the nearest whole share, and the exercise price per share of such Company Options shall equal the quotient obtained by dividing (x) the exercise price per share of such Company Options prior to such adjustment by (y) the Company Conversion Factor, which quotient shall be rounded up or down to the nearest cent. All such Company Options (as so adjusted) shall otherwise be subject to the same terms and conditions were in effect with respect to such Company Options (prior to such adjustment).

(d) Restricted Stock. Pursuant to the equitable adjustment provisions of the Company's 1988 Restricted Stock Plan, as amended (the "1988 Plan"), all shares of Spinco Common Stock issuable in the Distribution in respect of shares of Company Common Stock granted under the 1988 Plan, the restrictions on which have not lapsed as of the Offer Purchase Date, shall be granted under the Spinco Stock Plan and thereafter be subject to the same restrictions and other terms and conditions as the shares of Company Common Stock in respect of which such shares of Spinco Common Stock were distributed (including, but not limited to, the date on

which such restrictions shall lapse). Spinco shall be solely responsible for satisfaction of the obligations referred to in Section 2.10(c)(1) of the Merger Agreement and Parent and the Company shall each be responsible for satisfaction of the obligations referred to in Section 2.10(c)(2) of the Merger Agreement.

Section 8.3. Other Liabilities and Obligations. As of the Offer Purchase Date, with respect to claims relating to any employee liability or obligation not otherwise provided for in this Agreement, including, without limitation, earned salary, wages or other compensation and accrued holiday, vacation, health, dental or retirement benefits, (a) Spinco shall assume and be solely responsible for all liabilities and obligations whatsoever of the Company Business for such claims made by Spinco Employees and (b) the Company shall assume and be solely responsible for all liabilities and obligations whatsoever of the Prescription Business for claims made by all Prescription Employees.

Section 8.4. Preservation of Rights to Amend or Terminate Plans. No provision of this Agreement, shall be construed as a limitation on the right of the Company or Spinco to amend any plan or terminate its participation therein which the Company or Spinco would

otherwise have under the terms of such plan or otherwise, and no provision of this Agreement shall be construed to create a right in any employee or beneficiary of such employee under a plan that such employee or beneficiary would not otherwise have under the terms of such plan itself.

Section 8.5. Reimbursement; Indemnification. Spinco and the Company acknowledge that the Company, on the one hand, and Spinco, on the other hand, may incur costs and expenses (including, without limitation, contributions to plans and the payment of insurance premiums) pursuant to any of the employee benefit or compensation plans, programs or arrangements which are, as set forth in this Agreement, the responsibility of the other party. Accordingly, the Company and Spinco agree to reimburse each other, as soon as practicable but in any event within 30 days of receipt from the other party of appropriate verification, for all such costs and expenses reduced by the amount of any tax reduction or recovery of tax benefit realized by the Company or Spinco, as the case may be, in respect of the corresponding payment made by it. All Liabilities retained, assumed or indemnified by Spinco pursuant to this Article VIII shall in each case be deemed to be Company Liabilities, and all Liabil-

ities retained, assumed or indemnified by the Company pursuant to this Article VIII shall in each case be deemed to be Prescription Liabilities, and, in each case, shall be subject to the indemnification provisions set forth in Article V hereof (other than the provisions of Sections 5.2(b) and 5.3(b) hereof).

ARTICLE IX

INSURANCE

Section 9.1. General. Except as otherwise agreed in writing between the parties, the Company shall maintain until the Offer Purchase Date all policies of liability, fire, extended coverage, fidelity, fiduciary, workers' compensation and other forms of insurance in effect as of the date hereof insuring the products, properties, Assets and operations contemplated to be transferred to Spinco and its subsidiaries.

Section 9.2. Certain Insured Claims. The Company shall (a) use reasonable efforts, at Spinco's reasonable expense, to continue to maintain and renew for the benefit of Spinco and its subsidiaries the insurance policies under the Casualty Program with respect to claims having an occurrence date (as the term "occurrence date" is customarily defined) prior to the Offer Purchase

Date, relating to, or arising out of the conduct of, the Company Business, the Company Assets or the Company Liabilities, and (b) use reasonable efforts and cooperate with Spinco, at Spinco's reasonable expense, to obtain coverage, recoveries and other benefits under such policies for the benefit of Spinco and its subsidiaries, including, without limitation, by pursuing litigation to obtain such coverage, recoveries and other benefits. The Company will reimburse Spinco and its subsidiaries for any recovery obtained by it pursuant to such claims. The Company shall make available to Spinco such of its employees as Spinco may reasonably request as witnesses or deponents in connection with the Spinco's defense of claims.

ARTICLE X
CONDITIONS; TERMINATION; AMENDMENTS; WAIVERS

Section 10.1. Condition to Obligations. With the exception of the transfer of Company Assets and Company Liabilities contemplated in Section 2.1 hereof, the respective obligations of each party hereto to consummate the Distribution and to perform all other obligations set forth herein is subject to the satisfaction of the condition that, following the Record Date, the Pur-

chaser shall have purchased shares of Company Common Stock pursuant to the terms and conditions of the Offer as set forth in the Merger Agreement.

Section 10.2. Termination. This Agreement may be terminated and the Distribution abandoned at any time prior to the date the Distribution is declared by the Board of Directors of the Company by and in the sole discretion of the Company without the approval of Spinco or of the Company's stockholders. In the event of such termination, no party shall have any liability of any kind to any other party.

Section 10.3. Amendments; Waivers. This Agreement may be amended, modified or supplemented only by written agreement of the parties; provided that no such amendment, modification or supplement may be made which adversely affects the Prescription Business or Spinco's or the Company's performance of its obligations hereunder or under the Merger Agreement or the Ancillary Agreements without the prior written consent of Parent.

ARTICLE XI

MISCELLANEOUS

Section 11.1. Survival. The representations and warranties made in Section 6.1 of this Agreement, the representations and warranties of the Company, Parent and the Purchaser made in Articles IV and V and Section 9.11 of the Merger Agreement, and their respective covenants and agreements in the Merger Agreement that were to be performed prior to the Offer Purchase Date, shall survive for a period of nine months from the Offer Purchase Date, but shall not survive any termination of this Agreement. The parties intend to shorten the statute of limitations and agree that no claims or causes of action may be brought against the Company, Maryland, Spinco, Parent or the Purchaser or any of their directors, officers, employees, affiliates, controlling persons, agents or representatives based upon, directly or indirectly, any of the representations and warranties contained in this Agreement or the Merger Agreement or any of such covenants and agreements in the Merger Agreement after nine months following the Offer Purchase Date (other than causes of actions commenced after such nine month period to seek recourse for claims asserted during such nine month period that are not resolved by the parties), and

the parties agree that, except as provided below and for claims asserted pursuant to Article V of this Agreement, the parties each waive and release all other claims and causes of action, that may be asserted or brought against the Company, Maryland, Spinco, Parent or the Purchaser or any of their directors, officers, employees, affiliates, controlling persons, agents or representatives directly or indirectly based upon or arising under this Agreement or the Merger Agreement, or the transactions contemplated hereby or thereby. This Section 11.1 shall not limit any covenant or agreement of the parties in this Agreement, the Merger Agreement or the Ancillary Agreements which contemplates performance after the Distribution (including, without limitation, the covenants and agreements set forth in Sections 2.1(b) and 6.2 hereof), except for the covenants and agreements in the Merger Agreement to the extent of their performance prior to the Offer Purchase Date.

Section 11.2. Entire Agreement. Except for the provisions of the Confidentiality Agreement which shall continue in full force and effect, this Agreement (including the schedules and exhibits and the agreements and other documents referred to herein, including, without limitation, the Merger Agreement, the Tax Sharing

Agreement and the Additional Agreements, as each such term is defined in the Merger Agreement) constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all other prior negotiations, commitments, agreements and understandings, both written and oral, between the parties or any of them with respect to the subject matter hereof.

Section 11.3. Fees and Expenses. Except as otherwise provided in this Agreement, the Merger Agreement or the other Ancillary Agreements, all costs and expenses incurred by the Company and its subsidiaries and by Spinco in connection with entering into this Agreement, the Merger Agreement and the other Ancillary Agreements and consummating such party's obligations hereunder and thereunder including, without limitation, investment banking, legal, accounting, audit and printing costs and expenses, shall be paid by Spinco, upon the submission to Spinco of appropriate documentation detailing such costs and expenses, provided that all costs and expenses incurred by Parent and the Purchaser in connection with the preparation, execution and delivery of this Agreement, the Merger Agreement and the other Ancillary Agreements contemplated hereby and the consummation of the Offer and the Merger, including, without limitation, investment

banking, legal, accounting, audit and printing costs and expenses shall not be considered to be expenses of the Company and shall be paid by Parent or Purchaser, as the case may be, incurring such cost. In the event of any Action relating to this Agreement, the Merger Agreement or any of the other Ancillary Agreements or the consummation of the transactions contemplated hereby or thereby, Spinco shall bear the Company's expenses incurred in defending such Action, and the cost of any settlement or compromise relating to such Action to which it may agree; provided that Parent and the Purchaser shall pay any
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expenses incurred by them in defending such Action if named as parties thereto, and shall pay that portion of any cost of any settlement or compromise which Parent and the Purchaser agree is reasonably attributable to their wrongful conduct.

Section 11.4. Governing Law. This Agreement shall be governed by and
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construed in accordance with the laws of the State of Delaware (regardless of the laws that might otherwise govern under applicable principles of conflicts law) as to all matters, including, without limitation, matters of validity, construction, effect, performance and remedies.

Section 11.5. Notices. Commencing as of the Offer Purchase Date, all notices and other communications hereunder shall be in writing and shall be deemed given upon (a) transmitter's confirmation of a receipt of a facsimile transmission, (b) confirmed delivery by a standard overnight carrier or when delivered by hand or (c) the expiration of five business days after the day when mailed by certified or registered mail, postage prepaid, addressed at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) If to the Company, Maryland, Prescription or CPA, to:

PCS Health Systems, Inc.
9501 East Shea Boulevard
Scottsdale, Arizona 85260

Telephone: (602) 391-4600
Telecopy No.:
Attention: General Counsel

with a copy to:

Eli Lilly and Company
Lilly Corporate Center
Indianapolis, Indiana 46285

Telephone: (317) 276-2000
Telecopy No.: (317) 276-3861
Attention: General Counsel

(b) If to Spinco, to:

McKesson Corporation
One Post Street
San Francisco, California 94104

Telephone: (415) 983-8300
Telecopy No.: (415) 983-8826
Attention: Ivan D. Meyerson, Esq.

with a copy to:

Skadden, Arps, Slate, Meagher
& Flom
919 Third Avenue
New York, New York 10022

Telephone: (212) 735-3000
Telecopy No.: (212) 735-2000
Attention: Peter A. Atkins, Esq.

Section 11.6. Successors and Assigns; No Third Party Beneficiaries.

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either party (whether by operation of law or otherwise) without the prior written consent of the other party, except that any party shall have the right, without the consent of any other party hereto, to assign all or a portion of its rights, interests and obligations hereunder to one or more direct or indirect subsidiaries, but no such assignment of obligation shall relieve the

assigning party from its responsibility therefor. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and, except for 8.1, 8.2 and 8.3 hereof, nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement; provided, however, that the Indemnities are intended to be third party beneficiaries of the provisions of Article V hereof, and shall have the right to enforce such provisions as if they were parties hereto.

Section 11.7. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 11.8. Interpretation. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement. As used in this Agreement, the term "person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

Section 11.9. Schedules. The Disclosure Schedule shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

Section 11.10. Legal Enforceability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without affecting the validity or enforceability of the remaining provisions hereof. Any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

Section 11.11. Specific Performance. Each of the parties hereto acknowledges and agrees that in the event of any breach of this Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) will waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be

entitled, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement in any action instituted in any state or federal court sitting in Wilmington, Delaware. The parties hereto consent to personal jurisdiction in any such action brought in any state or federal court sitting in Wilmington, Delaware and to service of process upon it in the manner set forth in Section 11.5 hereof.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized, all as of the day and year first above written.

MCKESSON CORPORATION

By: /s/ Garrett Scholz

Name:
Title:

MCKESSON CORPORATION

By: /s/ Garret Scholz

Name:
Title:

CLINICAL PHARMACEUTICALS, INC.

By: /s/ Nancy A. Miller

Name:
Title:

PCS HEALTH SYSTEMS, INC.

By: /s/ Arthur Chong

Name:
Title:

SP VENTURES, INC.

By: /s/ Arthur Chong

Name:
Title:

In consideration of the benefits conferred on the Company, Parent and the Purchaser, pursuant to this Agreement, the Merger Agreement and the Ancillary Agreements, Parent, effective only upon consummation of the Offer (a) does hereby irrevocably and unconditionally guarantee, the performance by the Company of its obligations (subject to the terms and conditions of such obligations) with respect to all Prescription Liabilities and the obligations of the Company under the Distribution Agreement, the Merger Agreement and the Ancillary Agreement to be performed after the Offer Purchase Date, and (b) agrees to be bound by and comply with the provisions of Sections 6.1 and 11.1 of this Agreement, subject to the terms and conditions contained therein. The foregoing agreements of Parent shall be null and void and of no force and effect if the Offer expires without any Shares being purchased thereunder.

ELI LILLY AND COMPANY

By: /s/ Randall L. Tobias

Name:
Title:

</TEXT>
</DOCUMENT>

FORM SC 14D1

LILLY ELI &CO – lly

Filed: July 15, 1994 (period:)

Tender offer statement

EXHIBIT 99.1

Offer to Purchase for Cash
All Outstanding Shares of Common Stock
(Including the Associated Rights)
of

MCKESSON CORPORATION

at

$76.00 NET PER SHARE

by

ECO ACQUISITION CORPORATION

a wholly owned subsidiary of

ELI LILLY AND COMPANY

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON THURSDAY, AUGUST 11, 1994, UNLESS THE OFFER IS EXTENDED. ECO ACQUISITION CORPORATION HAS AGREED TO EXTEND THE OFFER TO THE FIRST BUSINESS DAY FOLLOWING THE SPIN-OFF RECORD DATE (AS DEFINED BELOW).

THE OFFER IS BEING MADE AS PART OF A SERIES OF TRANSACTIONS THAT ARE EXPECTED TO RESULT IN (I) THE DISTRIBUTION TO THE STOCKHOLDERS OF MCKESSON CORPORATION (THE "COMPANY") OF SHARES OF STOCK IN A NEW ENTITY THAT WILL OWN ALL THE BUSINESSES OF THE COMPANY OTHER THAN ITS PHARMACEUTICAL BENEFITS MANAGEMENT BUSINESS (THE "SPIN-OFF") AND (II) THE ACQUISITION OF THE COMPANY'S PHARMACEUTICAL BENEFITS MANAGEMENT BUSINESS BY ELI LILLY AND COMPANY ("PARENT") PURSUANT TO THE OFFER AND MERGER DESCRIBED HEREIN.

THE BOARD OF DIRECTORS OF THE COMPANY HAS UNANIMOUSLY APPROVED THE OFFER, THE MERGER AND THE SPIN-OFF, DETERMINED THAT THE OFFER, THE MERGER AND THE SPIN-OFF ARE FAIR TO THE STOCKHOLDERS OF THE COMPANY AND ARE IN THE BEST INTERESTS OF THE STOCKHOLDERS OF THE COMPANY, AND RECOMMENDS ACCEPTANCE OF THE OFFER AND APPROVAL AND ADOPTION OF THE MERGER AGREEMENT BY THE STOCKHOLDERS OF THE COMPANY.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE A NUMBER OF SHARES OF COMMON STOCK, PAR VALUE $2.00 PER SHARE (INCLUDING THE ASSOCIATED RIGHTS) (COLLECTIVELY, THE "SHARES"), OF THE COMPANY WHICH, WHEN ADDED TO THE NUMBER OF SHARES THEN BENEFICIALLY OWNED BY PARENT AND ITS AFFILIATES, REPRESENTS AT LEAST A MAJORITY OF THE TOTAL NUMBER OF SHARES OUTSTANDING AND A MAJORITY OF THE VOTING POWER OF THE SHARES OUTSTANDING ON A FULLY DILUTED BASIS.

IMPORTANT

Any stockholder desiring to tender Shares should either (1) complete and sign the Letter of Transmittal (or facsimile thereof) in accordance with the instructions in the Letter of Transmittal and deliver it to the Depositary with the certificate(s) representing tendered Shares and all other required documents or tender such Shares pursuant to the procedures for book-entry transfer set forth in Section 3 or (2) request his or her broker, dealer, commercial bank, trust company or other nominee to effect the transaction for him or her. A stockholder having Shares registered in the name of a broker, dealer, commercial bank, trust company or other nominee must contact such person if he or she desires to tender such Shares.

Any stockholder who desires to tender Shares and whose certificates representing such Shares are not immediately available or who cannot comply with the procedures for book-entry transfer on a timely basis may tender such Shares pursuant to the guaranteed delivery procedure set forth in Section 3.

Questions and requests for assistance or additional copies of this Offer to Purchase and the Letter of Transmittal may be directed to the Information Agent or the Dealer Manager at their respective addresses and telephone numbers set forth on the back cover of this Offer to Purchase. Additional copies of this Offer to Purchase, the Letter of Transmittal and the other tender offer materials may also be obtained from the Information Agent, the Dealer Manager or from brokers, dealers, commercial banks or trust companies.

The Dealer Manager for the Offer is:
LEHMAN BROTHERS

July 15, 1994

TABLE OF CONTENTS

To the Holders of Common Stock of McKESSON CORPORATION

INTRODUCTION

ECO Acquisition Corporation (the "Purchaser"), a Delaware corporation and a wholly owned subsidiary of Eli Lilly and Company, an Indiana corporation ("Parent"), hereby offers to purchase all outstanding shares of common stock (the "Common Stock"), par value $2.00 per share, of McKesson Corporation, a Delaware corporation (the "Company"), and the associated preferred stock purchase rights (the "Rights"; and together with the Common Stock, the "Shares") at $76.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which together constitute the "Offer"). The Rights were issued pursuant to a Rights Agreement, dated as of May 7, 1986, between the Company and Shareholder Services Trust Company (presently First Chicago Trust Company of New York), as amended and restated (the "Rights Agreement"), and are currently evidenced by and trade with certificates evidencing the Common Stock. See Section 10 for a brief description of the Rights Agreement and its application to the Offer and the Merger (as hereinafter defined). Tendering stockholders will not be obligated to pay brokerage fees or commissions or, except as set forth in Instruction 6 of the Letter of Transmittal, stock transfer taxes on the purchase of Shares by the Purchaser pursuant to the Offer. The Purchaser will pay all charges and expenses of Lehman Brothers Inc. ("Lehman Brothers"), which is acting as Dealer Manager for the Offer (in such capacity, the "Dealer Manager"), Citibank, N.A. (the "Depositary") and D.F. King & Co., Inc. (the "Information Agent") incurred in connection with the Offer. See Section 17.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE (AS DEFINED BELOW) A NUMBER OF SHARES WHICH, WHEN ADDED TO THE NUMBER OF SHARES THEN BENEFICIALLY OWNED BY PARENT AND ITS AFFILIATES, REPRESENTS AT LEAST A MAJORITY OF THE TOTAL NUMBER OF SHARES OUTSTANDING AND A MAJORITY OF THE VOTING POWER OF THE SHARES OUTSTANDING ON A FULLY DILUTED BASIS (THE "MINIMUM CONDITION"). SEE SECTION 15.

THE BOARD OF DIRECTORS OF THE COMPANY (THE "BOARD OF DIRECTORS" OR THE "BOARD") HAS UNANIMOUSLY APPROVED THE OFFER, THE MERGER AND THE SPIN-OFF, DETERMINED THAT THE OFFER, THE MERGER AND THE SPIN-OFF ARE FAIR TO THE STOCKHOLDERS OF THE COMPANY AND ARE IN THE BEST INTERESTS OF THE STOCKHOLDERS OF THE COMPANY, AND RECOMMENDS ACCEPTANCE OF THE OFFER AND APPROVAL AND ADOPTION OF THE MERGER AGREEMENT BY THE STOCKHOLDERS OF THE COMPANY.

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of July 10, 1994 (the "Merger Agreement"), among Parent, the Purchaser and the Company. The Merger Agreement provides, among other things, that upon the terms and subject to the conditions therein, as soon as practicable after the consummation of the Offer and the approval and adoption of the Merger Agreement by the stockholders of the Company, if required by applicable law, the Purchaser will be merged with and into the Company (the "Merger"), with the Company being the corporation surviving the Merger (the "Surviving Corporation"). Each outstanding Share (other than Dissenting Shares (as hereinafter defined)) not owned by Parent, the Purchaser, the Company or any of their subsidiaries will be converted into and represent the right to receive $76.00 in cash or any higher price that may be paid per Share in the Offer, without interest (the "Merger Price"). See Section 10.

Promptly following the consummation of the Offer, the Company will distribute (the "Spin-Off") common stock (the "New McKesson Shares") of SP Ventures, Inc., a newly formed Delaware corporation and a wholly owned subsidiary of the Company ("New McKesson"), to the holders of Shares on a record date to be determined by the Board of Directors of the Company (the "Spin-Off Record Date"), pursuant to a

Reorganization and Distribution Agreement, dated as of July 10, 1994, among the Company, New McKesson and various other subsidiaries of the Company (the "Distribution Agreement"). Because the Purchaser will not accept Shares for payment pursuant to the Offer until the Spin-Off Record Date has occurred, a record holder of Shares who tenders Shares pursuant to the Offer (and who does not subsequently withdraw and sell such Shares) will be the record holder thereof on the Spin-Off Record Date. Accordingly, in the event that Shares are accepted for payment pursuant to the Offer, such record holders will be entitled to receive, in respect of each Share tendered, $76.00 net in cash from the Purchaser and one New McKesson Share from the Company. As a result of the Spin-Off, New McKesson will own and operate all the businesses of the Company and its subsidiaries, other than the pharmaceutical benefits management business as conducted by the Company's PCS Health Systems, Inc. ("PCS") and Clinical Pharmaceuticals, Inc. ("CPA") subsidiaries (the "Retained Business"). After the Spin-Off, the Company will continue to own only the Retained Business. Accordingly, upon consummation of the Offer and the Merger, Parent will have acquired only the Retained Business. Pursuant to the Merger Agreement, simultaneously with the consummation of the Offer, the Purchaser will make a cash contribution to the Company of approximately $600 million, subject to adjustment, that will be included in the assets contributed to New McKesson by the Company in connection with the Spin-Off. Consummation of the Offer is conditioned upon, among other things, the Spin-Off Record Date having been set (the "Spin-Off Condition"). The Spin-Off Record Date is not expected to occur before the end of August. The Merger is conditioned upon, among other things, the Spin-Off having been consummated in all material respects. The distribution of the New McKesson Shares pursuant to the Spin-Off is conditioned upon the Purchaser having accepted for payment Shares tendered pursuant to the Offer. In the Merger Agreement, the Purchaser has agreed to extend the Offer to the first business day following the Spin-Off Record Date. The Company has advised Parent and the Purchaser that, prior to the time notice of the Spin-Off Record Date is given and at least ten days prior to the Expiration Date (as defined below), it expects to distribute to holders of Shares an information statement with respect to the business, operations and management of New McKesson (the "Information Statement"). See Section 10.

The offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Cumulative Preferred Stock, Series A (Convertible), par value $35.00 per share, of the Company (the "Cumulative Preferred Shares") or Series B ESOP Convertible Preferred Stock, par value $1.00 per share, of the Company (the "Series Preferred Shares", and together with the Cumulative Preferred Shares, the "Company Preferred Shares"). The Company has agreed to call for redemption prior to the Spin-Off Record Date all outstanding Cumulative Preferred Shares. Holders of Company Preferred Shares who desire to participate in the Offer must convert their Company Preferred Shares in time to permit the Shares received upon such conversion to be validly tendered pursuant to the Offer prior to the Expiration Date. See Section 1.

Morgan Stanley & Co. Incorporated ("Morgan Stanley"), financial advisor to the Company, has delivered to the Board of Directors of the Company its written opinion that, taken together, as of the date of such opinion, the Spin-Off and the consideration to be received by the holders of Shares in the Offer and the Merger are fair from a financial point of view to such holders. A copy of such opinion is included with the Company's Solicitation/Recommendation Statement on Schedule 14D-9 (the "Schedule 14D-9"), which is being mailed to stockholders concurrently herewith, and stockholders are urged to read the opinion in its entirety for a description of the assumptions made, factors considered and procedures followed by Morgan Stanley.

According to the Company, as of July 1, 1994, there were 40,716,310 Shares outstanding and approximately 4,308,690 Shares that may be issued prior to the Expiration Date upon the conversion of the Company Preferred Shares and upon the exercise of stock options issued under the Company's stock option plans. As a result, the Purchaser believes that the Minimum Condition would be satisfied if at least 22,512,501 Shares are validly tendered and not withdrawn prior to the Expiration Date.

THIS OFFER TO PURCHASE AND THE RELATED LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION AND SHOULD BE READ IN THEIR ENTIRETY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER.

1. TERMS OF THE OFFER; EXPIRATION DATE. Upon the terms and subject to the conditions of the Offer, the Purchaser will accept for payment and pay for all Shares that have been validly tendered prior to the Expiration Date and not withdrawn as permitted by Section 4. The term "Expiration Date" means 12:00 Midnight, New York City time, on Thursday August 11, 1994, unless and until the Purchaser, as provided below, shall have extended the period of time for which the Offer is open, in which event the term "Expiration Date" means the latest time and date at which the Offer, as so extended by the Purchaser, shall expire. Pursuant to the Merger Agreement, the Purchaser will extend the period of time during which the Offer is open if the Offer would otherwise expire prior to the first business day following the Spin-Off Record Date. The Purchaser will not otherwise extend the period of time during which the Offer is open without the prior written consent of the Company, unless any of the conditions described in Section 15 shall not have been satisfied, or unless Parent reasonably determines, with the approval of the Company (such approval not to be unreasonably withheld or delayed), that such extension is necessary to comply with any legal or regulatory requirements relating to the Offer.

The Offer is subject to certain conditions set forth in Section 15, including satisfaction of the Minimum Condition, the Spin-Off Condition and the expiration or termination of the waiting period applicable to the Purchaser's acquisition of Shares pursuant to the Offer under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"). If any such condition is not satisfied, the Purchaser may, subject to the terms of the Merger Agreement, (i) terminate the Offer and return all tendered Shares to tendering stockholders, (ii) extend the Offer and, subject to withdrawal rights as set forth in Section 4, retain all such Shares until the expiration of the Offer as so extended, (iii) other than as described in Section 15, waive such condition and, subject to any requirement to extend the period of time during which the Offer is open, purchase all Shares validly tendered and not withdrawn by the Expiration Date or (iv) delay acceptance for payment of or payment for Shares, subject to applicable law, until satisfaction or waiver of the conditions to the Offer. In the Merger Agreement, the Purchaser has agreed, subject to the conditions in Section 15 and its rights under the Offer, to accept for payment Shares as promptly as practicable following the Spin-Off Record Date. For a description of the Purchaser's right to extend the period of time during which the Offer is open, and to amend, delay or terminate the Offer, see Section 14.

The Company has provided or will provide the Purchaser with the Company's stockholder list and security position listings for the purpose of disseminating the Offer to holders of Shares. This Offer to Purchase and the related Letter of Transmittal will be mailed to record holders of Shares and will be furnished to brokers, banks and similar persons whose names, or the names of whose nominees, appear on the stockholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

2. ACCEPTANCE FOR PAYMENT AND PAYMENT. Upon the terms and subject to the conditions of the Offer, the Purchaser will accept for payment and pay for all Shares validly tendered and not properly withdrawn by the Expiration Date as soon as practicable after the later of (i) the Expiration Date and (ii) the satisfaction or waiver of the conditions set forth in Section 15. For a description of the Purchaser's right to terminate the Offer and not accept for payment or pay for Shares or to delay acceptance for payment or payment for Shares, see Section 14.

For purposes of the Offer, the Purchaser shall be deemed to have accepted for payment tendered Shares when, as and if the Purchaser gives oral or written notice to the Depositary of its acceptance of the tenders of such Shares. Payment for Shares accepted for payment pursuant to the Offer will be made by deposit of the purchase price with the Depositary, which will act as agent for the tendering stockholders for the purpose of receiving payments from the Purchaser and transmitting such payments to tendering stockholders. In all cases, payment for Shares accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of certificates for such Shares (or of a confirmation of a book-entry transfer of such Shares

into the Depositary's account at one of the Book-Entry Transfer Facilities (as defined in Section 3)), a properly completed and duly executed Letter of Transmittal (or facsimile thereof) and any other required documents. For a description of the procedure for tendering Shares pursuant to the Offer, see Section 3. Accordingly, payment may be made to tendering stockholders at different times if delivery of the Shares and other required documents occur at different times. UNDER NO CIRCUMSTANCES WILL INTEREST BE PAID BY THE PURCHASER ON THE CONSIDERATION PAID FOR SHARES PURSUANT TO THE OFFER, REGARDLESS OF ANY DELAY IN MAKING SUCH PAYMENT.

If the Purchaser increases the consideration to be paid for Shares pursuant to the Offer, the Purchaser will pay such increased consideration for all Shares purchased pursuant to the Offer.

The Purchaser reserves the right to transfer or assign, in whole or from time to time in part, to one or more of its affiliates the right to purchase Shares tendered pursuant to the Offer, but any such transfer or assignment will not relieve the Purchaser of its obligations under the Offer or prejudice the rights of tendering stockholders to receive payment for Shares validly tendered and accepted for payment.

If any tendered Shares are not purchased pursuant to the Offer for any reason, or if certificates are submitted for more Shares than are tendered, certificates for such unpurchased or untendered Shares will be returned (or, in the case of Shares tendered by book-entry transfer, such Shares will be credited to an account maintained at one of the Book-Entry Transfer Facilities), without expense to the tendering stockholder, as promptly as practicable following the expiration or termination of the Offer.

3. PROCEDURE FOR TENDERING SHARES. To tender Shares pursuant to the Offer, either (a) a properly completed and duly executed Letter of Transmittal (or facsimile thereof) and any other documents required by the Letter of Transmittal must be received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase and either (i) certificates for the Shares to be tendered must be received by the Depositary at one of such addresses or (ii) such Shares must be delivered pursuant to the procedures for book-entry transfer described below (and a confirmation of such delivery received by the Depositary including an Agent's Message (as defined below) if the tendering stockholder has not delivered a Letter of Transmittal), in each case prior to the Expiration Date, or (b) the guaranteed delivery procedure described below must be complied with. The term "Agent's Message" means a message transmitted by a Book-Entry Transfer Facility to and received by the Depositary and forming a part of a book-entry confirmation, which states that such Book-Entry Transfer Facility has received an express acknowledgement from the participant in such Book-Entry Transfer Facility tendering the Shares which are the subject of such book-entry confirmation that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that the Company may enforce such agreement against such participant.

The Depositary will establish an account with respect to the Shares at each of The Depository Trust Company, Midwest Securities Trust Company and Philadelphia Depository Trust Company (collectively referred to as the "Book-Entry Transfer Facilities") for purposes of the Offer within two business days after the date of this Offer to Purchase, and any financial institution that is a participant in the system of any Book-Entry Transfer Facility may make delivery of Shares by causing such Book-Entry Transfer Facility to transfer such Shares into the Depositary's account in accordance with the procedures of such Book-Entry Transfer Facility. However, although delivery of Shares may be effected through book-entry transfer, the Letter of Transmittal (or facsimile thereof) properly completed and duly executed together with any required signature guarantees or an Agent's Message and any other required documents must, in any case, be received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase prior to the Expiration Date, or the guaranteed delivery procedure described below must be complied with. Delivery of the Letter of Transmittal and any other required documents to a Book-Entry Transfer Facility does not constitute delivery to the Depositary.

Except as otherwise provided below, all signatures on a Letter of Transmittal must be guaranteed by a firm which is a member of a registered national securities exchange or the National Association of Securities

Dealers, Inc., or by a commercial bank or trust company having an office or correspondent in the United States (each, an "Eligible Institution"). Signatures on a Letter of Transmittal need not be guaranteed (a) if the Letter of Transmittal is signed by the registered holder of the Shares tendered therewith and such holder has not completed the box entitled "Special Payment Instructions" on the Letter of Transmittal or (b) if such Shares are tendered for the account of an Eligible Institution. See Instructions 1 and 5 of the Letter of Transmittal.

If a stockholder desires to tender Shares pursuant to the Offer and such stockholder's certificates evidencing such Shares are not immediately available or such stockholder cannot deliver such Shares and all other required documents to the Depositary by the Expiration Date, or such stockholder cannot complete the procedure for delivery by book-entry transfer on a timely basis, such Shares may nevertheless be tendered if all of the following conditions are met:

(i) such tender is made by or through an Eligible Institution;

(ii) a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form provided by the Purchaser is received by the Depositary (as provided below) by the Expiration Date; and

(iii) the certificates for such Shares (or a confirmation of a book-entry transfer of such Shares into the Depositary's account at one of the Book-Entry Transfer Facilities), together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof) with any required signature guarantee or an Agent's Message and any other documents required by the Letter of Transmittal, are received by the Depositary within five New York Stock Exchange trading days after the date of execution of the Notice of Guaranteed Delivery.

The Notice of Guaranteed Delivery may be delivered by hand or transmitted by telegram, telex, facsimile transmission or mail to the Depositary and must include a guarantee by an Eligible Institution in the form set forth in such Notice.

THE METHOD OF DELIVERY OF SHARE CERTIFICATES AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING THROUGH BOOK-ENTRY TRANSFER FACILITIES, IS AT THE OPTION AND RISK OF THE TENDERING STOCKHOLDER AND THE DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY. IF CERTIFICATES FOR SHARES ARE SENT BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED.

Under the federal income tax laws, the Depositary will be required to withhold 31% of the amount of any payments made to certain stockholders pursuant to the Offer. In order to avoid such backup withholding, each tendering stockholder must provide the Depositary with such stockholder's correct taxpayer identification number and certify that such stockholder is not subject to such backup withholding by completing the Substitute Form W-9 included in the Letter of Transmittal (see Instruction 10 of the Letter of Transmittal) or by filing a Form W-9 with the Depositary prior to any such payments. If the stockholder is a nonresident alien or foreign entity not subject to back-up withholding, the stockholder must give the Depositary a completed Form W-8 Certificate of Foreign Status prior to receipt of any payments.

By executing a Letter of Transmittal, a tendering stockholder irrevocably appoints designees of the Purchaser as such stockholder's proxies in the manner set forth in the Letter of Transmittal to the full extent of such stockholder's rights with respect to the Shares tendered by such stockholder and accepted for payment by the Purchaser (and any and all other Shares or other securities issued or issuable in respect of such Shares on or after July 1, 1994, other than any New McKesson Shares distributed in respect of the Shares in connection with the Spin-Off). All such proxies shall be irrevocable and coupled with an interest in the tendered Shares. Such appointment is effective only upon the acceptance for payment of such Shares by the Purchaser. Upon such acceptance for payment, all prior proxies and consents granted by such stockholder with respect to such Shares and other securities will, without further action, be revoked, and no subsequent

proxies may be given nor subsequent written consents executed by such stockholder (and, if given or executed, will be deemed ineffective). Such designees of the Purchaser will be empowered to exercise all voting and other rights of such stockholder as they, in their sole discretion, may deem proper at any annual, special or adjourned meeting of the Company's stockholders, by written consent or otherwise. The Purchaser reserves the right to require that, in order for Shares to be validly tendered, immediately upon the Purchaser's acceptance for payment of such Shares, the Purchaser is able to exercise full voting rights with respect to such Shares and other securities (including voting at any meeting of stockholders then scheduled or acting by written consent without a meeting).

The Company has advised Parent and the Purchaser that it expects that commencing on and after the Spin-Off Record Date and up to the date New McKesson Shares are distributed pursuant to the Spin-Off, the Shares will trade on the NYSE with due bills attached. These due bills will entitle a purchaser of a Share to receive one New McKesson Share upon the distribution thereof. Stockholders of the Company need not tender their due bills in order for their Shares to be accepted for exchange and the Purchaser will not accept any due bills pursuant to the Offer.

A tender of Shares pursuant to any one of the procedures described above will constitute the tendering stockholder's acceptance of the terms and conditions of the Offer, as well as the tendering stockholder's representation and warranty that such stockholder has the full power and authority to tender and assign the Shares tendered, as specified in the Letter of Transmittal. The Purchaser's acceptance for payment of Shares tendered pursuant to the Offer will constitute a binding agreement between the tendering stockholder and the Purchaser upon the terms and subject to the conditions of the Offer.

All questions as to the form of documents and the validity, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by the Purchaser, in its sole discretion, which determination shall be final and binding. The Purchaser reserves the absolute right to reject any or all tenders of Shares determined by it not to be in proper form or the acceptance for payment of or payment for which may, in the opinion of the Purchaser's counsel, be unlawful. The Purchaser also reserves the absolute right to waive any defect or irregularity in any tender of Shares. No tender of Shares will be deemed to have been properly made until all defects and irregularities relating thereto have been cured or waived. The Purchaser's interpretation of the terms and conditions of the Offer in this regard will be final and binding. None of the Purchaser, Parent, the Dealer Manager, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defect or irregularity in tenders or incur any liability for failure to give any such notification.

4. WITHDRAWAL RIGHTS. Tenders of Shares made pursuant to the Offer may be withdrawn at any time prior to the Expiration Date. Thereafter, such tenders are irrevocable, except that they may be withdrawn after September 12, 1994 unless theretofore accepted for payment as provided in this Offer to Purchase.

To be effective, a written, telegraphic, telex or facsimile transmission notice of withdrawal must be timely received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase and must specify the name of the person who tendered the Shares to be withdrawn and the number of Shares to be withdrawn and the name of the registered holder of the Shares, if different from that of the person who tendered such Shares. If the Shares to be withdrawn have been delivered to the Depositary, a signed notice of withdrawal with (except in the case of Shares tendered by an Eligible Institution) signatures guaranteed by an Eligible Institution must be submitted prior to the release of such Shares. In addition, such notice must specify, in the case of Shares tendered by delivery of certificates, the name of the registered holder (if different from that of the tendering stockholder) and the serial numbers shown on the particular certificates evidencing the Shares to be withdrawn or, in the case of Shares tendered by book-entry transfer, the name and number of the account at one of the Book-Entry Transfer Facilities to be credited with the withdrawn Shares. Withdrawals may not be rescinded, and Shares withdrawn will thereafter be deemed not validly tendered for purposes of the Offer. However, withdrawn Shares may be retendered by again following one of the procedures described in Section 3 at any time prior to the Expiration Date.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal will be determined by the Purchaser, in its sole discretion, which determination shall be final and binding. None of the Purchaser, Parent, the Dealer Manager, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defect or irregularity in any notice of withdrawal or incur any liability for failure to give any such notification.

5. CERTAIN TAX CONSIDERATIONS. The following summary addresses the material federal income tax consequences to holders of Shares who sell their Shares in the Offer. The summary does not address all aspects of federal income taxation that may be relevant to particular holders of Shares and thus, for example, may not be applicable to holders of Shares who are not citizens or residents of the United States or holders of Shares who are employees and who acquired their Shares pursuant to the exercise of incentive stock options; nor does this summary address the effect of any applicable foreign, state, local or other tax laws. The discussion assumes that each holder of Shares holds such Shares as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). STOCKHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PRECISE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF THE PROPOSED TRANSACTIONS.

Tax Consequences of Receipt of Cash and New McKesson Shares. Assuming that the Purchaser accepts Shares pursuant to the Offer and the Spin-Off and the Merger are consummated, stockholders who hold their Shares of record on the Spin-Off Record Date, and who also tender their Shares in the Offer or have such Shares exchanged for the Merger Price upon consummation of the Merger, will receive for each such Share consideration consisting of (i) one New McKesson Share and (ii) $76 in cash. Stockholders who hold their Shares of record on the Spin-Off Record Date, and who sell such Shares after the date as of which the Spin-Off shall be effected (the "Distribution Date") other than pursuant to the Offer or the Merger, will receive consideration consisting of (i) one New McKesson Share and (ii) the proceeds from the sale of their Shares. In each of the above-mentioned cases, the receipt of such consideration will be a taxable transaction for federal income tax purposes, and may also be a taxable transaction under applicable state, local, foreign and other tax laws. The foregoing transactions should be treated as a single integrated transaction in which a holder of Shares receives such consideration in exchange for such holder's Shares. In such case, a holder of Shares will recognize gain or loss equal to the difference between (i) the sum of the amount of cash plus the fair market value of the New McKesson Shares received (which fair market value likely will equal the average trading value per New McKesson Share on the Distribution Date) and (ii) such holder's adjusted tax basis for such holder's Shares. Such gain or loss will be capital gain or loss.

This gain (or loss) will be long-term capital gain (or loss) if, on the date of the exchange, the stockholder has held his Shares for more than one year. If a holder of Shares owns more than one block of stock, the consideration received must be allocated ratably among the blocks in the proportion that the number of Shares in a particular block bears to the total number of Shares held by the holder.

It is possible that the Internal Revenue Service might successfully contend that only the cash was received as payment for the outstanding Shares, and that the receipt of New McKesson Shares instead should be taxable to the recipient as a distribution from the Company under Section 301 of the Code. In that case, the cash received by a holder of Shares would still be treated as received in exchange for such holder's Shares.

If the receipt of New McKesson Shares were treated as a distribution, the amount of such distribution would be the fair market value of the New McKesson Shares on the Distribution Date (which likely will equal the average trading value per New McKesson Share on the Distribution Date). Under Section 301 of the Code, the receipt of the New McKesson Shares would be a distribution taxable as a dividend to the holders of Shares for federal income tax purposes to the extent of the Company's current and accumulated earnings and profits. The amount of the distribution that exceeded such earnings and profits would first be treated as a non-taxable return of capital to the extent of each stockholder's tax basis in such stockholder's Shares, and such stockholder's tax basis in such stock would be reduced accordingly (but not below zero), and thereafter as a capital gain from the sale or exchange of Shares. The determination of a corporation's

earnings and profits requires complex factual and legal analyses; moreover, the amount of a corporation's current earnings and profits cannot be determined until the close of its taxable year. Nonetheless, the Company has informed the Purchaser that the Company believes, based upon present estimates of its current and accumulated earnings and profits, that the Company's earnings and profits would not be sufficient to cover the amount of any such dividend.

With respect to corporate stockholders, to the extent, if any, that the receipt of New McKesson Shares was treated as a dividend under the foregoing rules, such dividend generally should be eligible for the 70% "dividends received deduction." A corporate stockholder's ability to use the dividends received deduction, however, is subject to a number of limitations, including those relating to "debt financed portfolio stock" under Section 246A of the Code and the 46-day holding period requirement of Section 246(c). Moreover, even if the dividends received deduction were fully available, any such dividend might constitute an "extraordinary dividend" subject to the provisions of Section 1059 of the Code, which generally requires a corporation stockholder which has not held stock for a period of two years prior to the dividend announcement date to reduce its basis for (thereby increasing its gain on a subsequent or contemporaneous sale of) such stock by the portion of the dividend which is untaxed by reason of the dividends received deduction.

Regardless of whether the receipt of the New McKesson Shares is treated as a taxable exchange or a distribution under Section 301 of the Code, a holder's tax basis in the New McKesson Shares will be equal to the fair market value of the New McKesson Shares on the date received.

Dissenters. The Company believes that a holder of Shares who does not sell such holder's Shares in the Offer or the Merger and perfects such holder's dissenters' rights probably would recognize capital gain or loss at the Effective Time equal to the difference between the amount realized by such holder and such holder's basis in such holder's Shares.

Withholding. Unless a stockholder complies with certain reporting and/or certification procedures or is an exempt recipient under applicable provisions of the Code (and regulations promulgated thereunder), such stockholder may be subject to a "backup" withholding tax of 31% with respect to the amount received in the Offer, the Merger or as a result of the exercise of the holder's dissenters rights. Stockholders should contact their brokers to ensure compliance with such procedures. Foreign stockholders should consult with their tax advisors regarding withholding taxes in general.

THE FOREGOING SUMMARY OF FEDERAL INCOME TAX CONSEQUENCES IS INCLUDED HEREIN FOR GENERAL INFORMATION PURPOSES ONLY. ACCORDINGLY, EACH HOLDER OF SHARES IS URGED TO CONSULT HIS OR HER OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF THE OFFER, THE MERGER AND THE SPIN-OFF.

6. PRICE RANGE OF SHARES; DIVIDENDS. The Shares are listed and traded on The New York Stock Exchange, Inc. (the "NYSE") and the Pacific Stock Exchange (the "PSE") under the Symbol "MCK". The following table sets forth, for the periods indicated, the reported high and low sales prices and dividends paid per share for the Shares on the NYSE as published in financial sources.

	HIGH	LOW	DIVIDEND
Year Ended March 31, 1993:			
Second Quarter.....	$ 40	$31 1/4	$0.40
Third Quarter.....	$ 44 1/4	$36 1/2	$0.40
Fourth Quarter.....	$ 47 1/8	$40 1/2	$0.40
Year Ended March 31, 1994:			
First Quarter.....	$ 46 3/8	$38 5/8	$0.40
Second Quarter.....	$ 52 3/4	$41 7/8	$0.40
Third Quarter.....	$ 57 1/4	$50 1/2	$0.42
Fourth Quarter.....	$ 68 1/2	$52 1/2	$0.42
Year Ending March 31, 1995:			
First Quarter.....	$ 87	$58 1/2	$0.42
Second Quarter (through July 14).....	$ 100	$70 3/4	$0.42

The Merger Agreement prohibits the Company from declaring or paying any dividend or distribution on the Shares (other than the Spin-Off), except that the Company may declare and pay to holders of Shares regular quarterly dividends of not more than $0.42 per Share on the dividend and payment dates normally applicable to the Shares.

The closing sales price of the Shares as reported by the NYSE was $73 1/4 per share on July 8, 1994, the last full day of trading prior to the first public announcement of the Offer.

STOCKHOLDERS ARE URGED TO OBTAIN A CURRENT MARKET QUOTATION FOR THE SHARES.

7. CERTAIN INFORMATION CONCERNING THE COMPANY. The Company is a Delaware corporation and its principal executive offices are located at McKesson Plaza, One Post Street, San Francisco, California 94104. The Company principally operates through its wholly owned Maryland subsidiary of the same name. The Company conducts its operations through three business segments--Health Care Services, Water Products and Armor All. The Company's Health Care Services segment includes the Company's distribution services operation and PCS. Within the United States and Canada, the distribution services operation is the largest wholesale distributor of ethical and proprietary drugs and health and beauty care products. Its products are distributed to chain and independent drug stores, hospitals, food stores and mass merchandisers throughout the United States and Canada. PCS provides managed care prescription benefit services and related prescription drug claims processing to health plan sponsors. In fiscal 1994, the Health Care Services segment generated 97% of the Company's total revenues and 76% of its operating profit. The Company's Water Products segment engages in the processing, sale and delivery of bottled drinking water and the sale of packaged water to retail stores. The Armor All segment is the majority-owned Armor All Products Corporation subsidiary, which is engaged in the development and marketing of branded appearance enhancement and protection products primarily in the automotive aftermarket.

The Company is subject to the information requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is required to file reports and other information with the Securities and Exchange Commission (the "Commission") relating to its business, financial condition and other matters. Information, as of particular dates, concerning the Company's directors and officers, their remuneration, options granted to them, the principal holders of the Company's securities and any material interest of such persons in transactions with the Company is required to be described in periodic statements distributed to the Company's stockholders and filed with the Commission. These reports, proxy statements and other

information, including the Company's Annual Report on Form 10-K for the year ended March 31, 1994 (the "Company 10-K") and the Schedule 14D-9, should be available for inspection and copying at the Commission's office at 450 Fifth Street, N.W., Washington D.C. 20549, and at the regional offices of the Commission located at 75 Park Place, New York, New York 10007 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of this material may also be obtained by mail, upon payment of the Commission's customary fees, from the Commission's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549.

The above information concerning the Company and the information contained herein regarding the Spin-Off have been taken from or based upon the Company 10-K and other publicly available documents on file with the Commission, other publicly available information and information provided by the Company. Although neither the Purchaser nor Parent has any knowledge that would indicate that such information is untrue, neither the Purchaser nor Parent takes any responsibility for, or makes any representation with respect to, the accuracy or completeness of such information or for any failure by the Company to disclose events that may have occurred and may affect the significance or accuracy of any such information but which are unknown to the Purchaser or Parent.

The summary unaudited data for the Retained Business (the "Retained Business Financial Data") in the following table has been provided to Parent and the Purchaser by the Company. The Company has advised Parent and the Purchaser that the Retained Business Financial Data has been derived from the consolidated financial statements of the Company. This financial data is presented in considerably less detail than complete financial statements and does not include all of the disclosures required by generally accepted accounting principles. Neither Parent nor the Purchaser assumes any responsibility for the accuracy of the Retained Business Financial Statements.

RETAINED BUSINESS
SUMMARY FINANCIAL INFORMATION--(NOTE 1)
(IN THOUSANDS)
(UNAUDITED)

	YEAR ENDED MARCH 31		
	1994	1993	1992
Revenues	$173,495	$111,457	$102,463
Costs and Expenses	128,569	79,370	71,906
Operating Income	44,926	32,087	30,557
Interest Expense-Net (Unrelated Parties)-(Note 2)	68	73	2,424
Income Before Taxes	44,858	32,014	28,133
Net Income	$ 25,606	$ 18,636	$ 15,748

	MARCH 31		
	1994	1993	1992
Current Assets	$306,467	$140,426	$112,588
Noncurrent Assets	170,679	115,565	107,031
Current Liabilities	346,730	195,321	175,510
Noncurrent Liabilities	9,378	6,301	5,277
Investment and Advances by the Company-(Note 3)	$121,038	$ 54,369	$ 38,832

1.Basis of Presentation
The accompanying consolidated summary financial information includes the combined financial information of PCS and its consolidated subsidiaries, and CPA and the Company's investment in Integrated Medical Systems.

2.Cash Management
The Retained Business participates daily in the cash management program administered by the Company for substantially all cash transactions, except for transactions related to the Retained Business's contract with the Federal Employees Program. Under the arrangement with the Company, the Retained Business remits all cash receipts to the Company and the Company makes cash available to the Retained Business for all cash disbursements. As a result, all cash balances in excess of average daily working capital requirements have been permanently remitted to the Company and there is no net intercompany interest income or expense reflected in this "Summary Financial Information."

3.Investment and Advances by the Company
Includes intercompany advances by the Company to the Retained Business to fund daily working capital requirements under the Company cash management program described in Note 2.

In the course of the discussions between representatives of Parent and the Company (see Section 10), the Company provided Parent with projected financial data for the current fiscal year ending March 31, 1995. This data was not prepared with a view to public disclosure or compliance with published guidelines of the Commission or the guidelines established by the American Institute of Certified Public Accountants regarding projections, and was not prepared with the assistance of, or reviewed by, independent accountants, and is included in this Offer to Purchase only because it was provided to Parent. Neither Parent, the Purchaser nor the Company, nor either of their financial advisors nor the Dealer Manager assumes any responsibility for the validity, reasonableness, accuracy or completeness of this projected data. While presented with numerical specificity, this projected data is based upon a variety of assumptions relating to the businesses of the Company which may not be realized and is subject to significant uncertainties and contingencies, many of which are beyond the control of the Company and, therefore, this projected data is inherently imprecise, and there can be no assurance that projected financial results or any valuation assumed therein will be realized. It is expected that there will be a difference between actual and estimated or projected results and actual results may vary materially from those shown. The Company does not intend to update or otherwise revise this projected data prior to the consummation of the Merger. The projected data set forth below should be read together with the Retained Business Financial Data included above.

RETAINED BUSINESSPROJECTED FINANCIAL INFORMATION
(IN THOUSANDS)
(UNAUDITED)

	YEAR ENDING MARCH 31, 1995
Revenues	$263,679
Costs and Expenses	189,953
Operating Income	73,726
Interest Expense--Net (Unrelated Parties)	(391)
Income Before Taxes	73,335
Taxes on Income	30,994
Net Income	$ 42,341

8. CERTAIN INFORMATION CONCERNING THE PURCHASER AND PARENT. The Purchaser is a newly formed Delaware corporation and a wholly owned subsidiary of Parent. To date, Purchaser has not conducted any business other than in connection with the Offer. Until immediately prior to the time the Purchaser purchases Shares pursuant to the Offer, it is not anticipated that the Purchaser will have any significant assets or liabilities or engage in activities other than those incident to its formation and capitalization and the transactions contemplated by the Offer. Because the Purchaser is a newly formed corporation and has minimal assets and capitalization, no meaningful financial information regarding the Purchaser is available.

Parent is a global, research-based pharmaceutical corporation headquartered in Indianapolis, Indiana that is engaged in the discovery, development, manufacture and sale of products to diagnose and treat diseases in human beings and animals and to increase the efficiency of animal food production. Parent markets its products in 120 countries. The principal executive offices of Parent and the Purchaser are located at Lilly Corporate Center, Indianapolis, Indiana 46285, and their telephone number at that location is (317) 276-2000.

The name, citizenship, business address, principal occupation or employment and five year employment history of each of the directors and executive officers of the Purchaser and Parent are set forth in Schedule I hereto.

Set forth below is a summary of certain consolidated financial information with respect to Parent and its consolidated subsidiaries excerpted or derived from the information contained in or incorporated by reference into Parent's Annual Report on Form 10-K for the year ended December 31, 1993 (the "Parent 10-K") and Parent's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994. More comprehensive financial information is included in or incorporated by reference into the Parent 10-K and other documents filed by Parent with the Commission, and the financial information summary set forth below is qualified in its entirety by reference to the Parent 10-K and such other documents and all the financial information and related notes contained therein.

ELI LILLY AND COMPANY

SELECTED SUMMARY CONSOLIDATED FINANCIAL INFORMATION

(IN MILLIONS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,		FISCAL YEAR ENDED DECEMBER 31,		
	1994	1993	1993	1992	1991
	(UNAUDITED)	(UNAUDITED)			
Income Statement Information					
Net Sales	$1,637.0	$1,560.0	$6,452.4	$6,167.3	$5,725.7
Income Before Income Taxes and Cumulative Effect of Change in Accounting Principle	482.7	529.8	701.9	1,182.3	1,879.2
Net Income	330.7	362.6	480.2	708.7	1,314.7
Earnings per share	$ 1.14	$ 1.23	$ 1.63	$ 2.41	$ 4.50
Balance Sheet (at end of period)					
Working Capital	$1,119.0	$1,169.5	$ 769.1	$ 607.4	$ 667.3
Total Assets	9,809.0	9,055.1	9,623.6	8,672.8	8,298.6
Long-Term Debt	854.7	779.7	835.2	582.3	395.5
Stockholders' Equity	4,940.9	5,221.1	4,568.8	4,892.1	4,966.1

Parent is subject to the informational filing requirements of the Exchange Act and is required to file reports and other information with the Commission relating to its business, financial condition and other

matters. Information, as of particular dates, concerning Parent's directors and executive officers, their remuneration, the principal holders of Parent's securities and any material interest of such persons in transactions with Parent is required to be described in periodic statements delivered to Parent's stockholders and filed with the Commission. Such reports and other information, including the Parent 10-K, may be inspected and copies may be obtained from the offices of the Commission in the same manner as set forth in Section 7.

In the ordinary course of business, the Company has acted for Parent as a wholesale distributor of its pharmaceutical products. From April 1, 1991 through June 30, 1994, Parent's net sales to the Company totalled approximately $1.89 billion. In addition, Parent has entered into an agreement with CPA, which does business as Clinical Pharmacy Advantage, under which the Parent will pay rebates to CPA based on reimbursements by CPA with respect to certain of Parent's drugs. In return, CPA has made these drugs available to patients for whom it manages a prescription drug benefit. As of June 30, 1994, no payments had been made by Parent under this agreement. Parent's Lilly Health Plan, a self-funded employee medical plan, has contracted with PCS for prescription claims administration services. Since the inception of this arrangement in January 1994 through June 30, 1994, claims of approximately $5.8 million have been processed, and administration fees have totalled approximately $187,000. Finally, since 1992, Parent has contracted with Technology Assessment Group ("TAG"), a partnership in which the Company has a minority ownership interest, for consulting services in the area of health economics. Total payments to TAG under those arrangements through June 30, 1994 have been approximately $260,000.

Except as set forth in this Offer to Purchase, none of Parent, the Purchaser or any of their affiliates (collectively the "Purchaser Entities"), or, to the best knowledge of any of the Purchaser Entities, any of the persons listed on Schedule I, has any contract, arrangement, understanding or relationship with any other person with respect to any securities of the Company, including, but not limited to, any contract, arrangement, understanding or relationship concerning the transfer or the voting of any securities of the Company, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or the giving or withholding of proxies. Except as set forth in this Offer to Purchase, none of the Purchaser Entities, or, to the best knowledge of any of the Purchaser Entities, any of the persons listed on Schedule I, has had, since April 1, 1991, any business relationships or transactions with the Company or any of its executive officers, directors or affiliates that would require reporting under the rules of the Commission. Except as set forth in this Offer to Purchase, since April 1, 1991, there have been no contacts, negotiations or transactions between the Purchaser Entities, or their respective subsidiaries or, to the best knowledge of any of the Purchaser Entities, any of the persons listed on Schedule I, and the Company or its affiliates, concerning a merger, consolidation or acquisition, tender offer or other acquisition of securities, election of directors or a sale or other transfer of a material amount of assets. None of the Purchaser Entities or, to the best knowledge of any of the Purchaser Entities, any of the persons listed on Schedule I, beneficially owns any Shares or has effected any transactions in the Shares in the past 60 days.

9. SOURCE AND AMOUNTS OF FUNDS. The total amount of funds required by the Purchaser to acquire all outstanding Shares pursuant to the Offer and the Merger, to consummate the transactions contemplated by the Merger Agreement, and to pay fees and expenses related to the Offer and the Merger is estimated to be approximately $4.1 billion. These funds are expected to be provided to the Purchaser in the form of equity contributions or borrowings from Parent. Parent intends to obtain the necessary funds from its general corporate funds and from borrowings of approximately $4.0 billion. Parent intends to borrow these funds through the private sale of commercial paper to institutional investors or from banks pursuant to new credit facilities. Parent anticipates that such indebtedness will be repaid from a variety of sources, which may include, but may not be limited to, funds generated internally by Parent and its affiliates, proceeds from the divestiture of Parent's Medical Devices and Diagnostics Division businesses, proceeds from the sale of other assets of Parent, bank refinancing, and the public or private sale of debt securities. Decisions concerning the method of repayment will be made based on Parent's review from time to time of the advisability of particular actions and on prevailing interest rates and market conditions. The Offer is not conditioned upon obtaining the financing described herein.

10. BACKGROUND OF THE OFFER; THE MERGER AGREEMENT; THE SPIN-OFF; THE RIGHTS AGREEMENT.

BACKGROUND OF THE OFFER

In October 1993, Parent contacted the Company to determine if the Company wished to discuss possible alliances in broad terms, including the possibility of Parent's taking a minority equity position in the Company or the Retained Business. At that time, the Company indicated that it would not be an appropriate time for the Company to engage in such discussions.

In early May, Parent contacted the Company to express an interest in a strategic alliance between Parent and the Company, and proposed purchasing a minority equity interest in the Retained Business to be followed by additional equity investments based upon the performance of the Retained Business. The Company advised Parent that it was not interested in pursuing such proposal and that the Company would not pursue further discussions at that time.

At a meeting on May 23, 1994, Parent's board of directors authorized the sending of a letter to the Company setting forth a proposal for exploring a possible acquisition of the Retained Business. After that meeting, Randall L. Tobias, Chairman and Chief Executive Officer of Parent, sent such a letter to Alan Seelenfreund, Chairman and Chief Executive Officer of the Company. Following delivery of the May 23 letter, the Company and Parent, and their respective advisors, had a number of discussions, primarily to clarify Parent's position concerning the terms of a possible transaction.

On May 31, 1994, the Company contacted Parent to express an interest in exploring the possible sale of the Retained Business to Parent.

The Company and Parent entered into a Confidentiality Agreement on June 8, 1994 pursuant to which Parent agreed to keep certain information furnished to Parent by the Company confidential and for a period of three years to abide by certain "standstill" provisions. Parent subsequently obtained various financial and other information regarding the Retained Business.

At a meeting on June 20, 1994, members of senior management updated Parent's board of directors with respect to the discussions with the Company. Parent's board authorized continued negotiations, subject to future board approval of the definitive terms of a transaction.

Following Parent's review of certain financial and other information regarding the Retained Business and other due diligence, and various discussions between the Company and Parent and their respective financial and legal advisors, on June 21, 1994, Mr. Tobias and James M. Cornelius, Vice President--Finance and Chief Financial Officer of Parent, met with Mr. Seelenfreund and David L. Mahoney, Vice President--Strategic Planning of the Company, to discuss the terms of a possible acquisition of the Retained Business by Parent. Following such meeting, the parties agreed to instruct their management and advisors to seek to negotiate a mutually acceptable agreement concerning a sale of the Retained Business.

Throughout the remainder of June and early July 1994, Parent and the Company and their respective legal and financial advisors negotiated the terms of a possible transaction.

On July 8, 1994, the board of directors of Parent held a meeting and, after a review of the transaction with senior management, Lehman Brothers and Parent's legal advisors, approved the Merger Agreement, the Ancillary Agreements (as defined below) and the transactions contemplated thereby. At a meeting on July 10, 1994, the board of directors of the Company approved the Merger Agreement, the Ancillary Agreements and the transactions contemplated thereby. Later that day, the parties thereto executed and delivered the Merger Agreement and the Ancillary Agreements.

THE MERGER AGREEMENT

The following is a summary of certain provisions of the Merger Agreement. A copy of the Merger Agreement (with certain Exhibits omitted) is attached hereto as Exhibit A and is incorporated herein by reference. Such summary is qualified in its entirety by reference to the Merger Agreement.

The Offer. The Merger Agreement provides for the making of the Offer by the Purchaser. The Purchaser has agreed to accept for payment and pay for all Shares tendered pursuant to the Offer as soon as practicable following the Spin-Off Record Date and to extend the Offer until the first business day following the Spin-Off Record Date. The Spin-Off Record Date is not expected to occur before the end of August. The obligation of Purchaser to accept for payment and pay for Shares tendered pursuant to the Offer is subject to the satisfaction of the Spin-Off Condition, the Minimum Condition and certain other conditions that are described in Section 15. The Purchaser has agreed that, without the written consent of the Company, no amendment to the Offer may be made which changes the form of consideration to be paid or decreases the price per Share or the number of Shares sought in the Offer or which imposes conditions to the Offer in addition to the Spin-Off Condition, the Minimum Condition and the other conditions described in Section 15 or broadens the scope of such conditions, and no other amendment may be made in the terms or conditions of the Offer which is adverse to holders of Shares.

The Merger. The Merger Agreement provides that, following the purchase of Shares pursuant to the Offer, and the satisfaction or waiver of the other conditions to the Merger, the Purchaser will be merged with and into the Company. The Merger will become effective at such time as a certificate of merger or, if applicable, a certificate of merger and ownership, is filed with the Secretary of State of the State of Delaware (the "Effective Time").

At the Effective Time, (i) except as provided in (ii) below, each Share issued and outstanding immediately prior to the Effective Time will be converted into the right to receive $76.00 in cash, or any higher price paid per Share in the Offer, without interest (the "Merger Price"); (ii) (a) each Share held in the treasury of the Company or held by any subsidiary of the Company (other than a subsidiary that will be owned directly or indirectly by the Company following the Spin-Off (the "Retained Subsidiaries")) and each Share held by Parent or any subsidiary of Parent immediately prior to the Effective Time will be cancelled and retired and cease to exist; (b) each Share held by any Retained Subsidiary will be converted into and exchanged for a number of fully paid and nonassessable shares of common stock of the Surviving Corporation equal to the same percentage of the total number of issued and outstanding shares of Surviving Corporation common stock immediately following the Effective Time as the Shares owned by such Retained Subsidiary bore to the total number of issued and outstanding Shares immediately prior to the Effective Time; (c) each Share held by any holder who has not voted in favor of the Merger, has delivered a written demand for appraisal of such Shares and perfected such appraisal rights, all in accordance with Section 262 of the General Corporation Law of the State of Delaware (the "GCL") will not be converted into or be exchangeable for the right to receive the Merger Price (the "Dissenting Shares"); and (iii) each share of common stock of the Purchaser issued and outstanding immediately prior to the Effective Date will be converted into and exchangeable for one share of common stock of the Surviving Corporation.

In addition, at the Effective Time, (i) all options to acquire Shares ("Stock Options") which are outstanding and exercisable immediately prior to the Effective Time and which are held by any employee or former employee or director or former director of the Company or any of its subsidiaries will be cancelled and the holder thereof will be entitled to receive from the Company for each Share subject to such Stock Option, an amount in cash equal to the difference between the Merger Price and the exercise price per share of such Stock Option, less all applicable withholding taxes and (ii) all Stock Options which are outstanding but not exercisable immediately prior to the Effective Time and which are held by any Retained Employee (as hereinafter defined) will be cancelled in exchange for the issuance by Parent, within ten days after the Effective Time, to such Retained Employee of that number of shares of common stock of Parent ("Parent Common Stock"), rounded up or down to the nearest whole share, equal to the quotient obtained by dividing

(a) the product of (1) the difference between the Merger Price and the exercise price per share of such Stock Options held by such Retained Employee and (2) the number of Shares subject to such Stock Options, by (B) the average of the high and low prices per share of Parent Common Stock on the NYSE (the "Parent Stock Price") on the date of the consummation of the Merger. The shares of Parent Common Stock so issued will be subject to certain restrictions on transfer. If on the date that such restrictions lapse with respect to any shares of Parent Common Stock issued to a Retained Employee in the Merger, the Parent Stock Price is less than the Parent Stock Price on the date of consummation of the Merger, Parent will pay or will cause the Surviving Corporation to pay to such Retained Employee (or to such Retained Employee's estate or beneficiary, if applicable), within ten days after such restrictions lapse, in cash or, at Parent's option, in additional shares of Parent Common Stock (valued based on the Parent Stock Price on the date such restrictions lapse), an additional amount, less all applicable withholding taxes, such that the sum of (A) the value (as of such date) of the shares of Parent Common Stock the restrictions on which lapse on such date plus (B) the value (as of such date) of the payment made as described in this sentence will be equal to the product of (1) the number of shares of Parent Common Stock the restrictions on which lapse on such date and (2) the Parent Stock Price on the date of consummation of the Merger. Under certain circumstances such restricted shares will be forfeited if such Retained Employee voluntarily terminates his or her employment with the Surviving Corporation or Parent (or any affiliate thereof) other than for "good reason" (as such term is used in certain severance agreements). The Distribution Agreement contains certain provisions with respect to Stock Options held by persons other than Retained Employees, which provisions are described in the Schedule 14D-9.

Also at the Effective Time, (i) pursuant to the equitable adjustment provisions of the Company's 1988 Restricted Stock Plan, as amended (the "1988 Plan"), cash otherwise payable under the Merger Agreement in respect of Shares granted to a New McKesson Employee (as defined in the Distribution Agreement) under the 1988 Plan, with respect to which the restrictions have not lapsed as of the Effective Time will be transferred by the Company to, and retained by, New McKesson and will be payable to such New McKesson Employee, subject to the conditions otherwise applicable with respect to the lapsing of restrictions on such Shares, at such time or times when such restrictions would otherwise have lapsed, together with interest thereon from the Effective Time through the date of payment at the rate in effect from time to time under the Company's Deferred Compensation Administration Plan II (DCAP II) (or any successor plan thereto); provided, however, that each such New McKesson Employee will have the right to elect to defer receipt of any amount otherwise payable after December 31, 1995, under such terms and conditions as New McKesson may provide and (ii) pursuant to the equitable adjustment provisions of the 1988 Plan, Shares granted to Retained Employees under the 1988 Plan with respect to which the restrictions have not lapsed as of the date on which the Purchaser accepts for payment and pays for the Shares tendered pursuant to the Offer (the "Offer Purchase Date") will be returned to the Company on the day following the Offer Purchase Date, and restricted shares of New McKesson issued to Retained Employees in the Spin-Off under the Spinco Stock Plan (as defined in the Distribution Agreement) in respect of such Shares will be returned to New McKesson on such day.

In consideration of the actions described in clause (ii) of the preceding paragraph, Parent will issue to each such Retained Employee, within ten days after the Effective Time, a number of shares of Parent Common Stock, rounded up or down to the nearest whole share, equal to the quotient obtained by dividing (A) the sum of (1) the amount of cash which would have been payable to such Retained Employee under the Merger Agreement in respect of such Shares had such Shares been outstanding immediately prior to the Effective Time (the "Cash Consideration") plus (2) the product of (x) the number of shares of New McKesson Shares issued to such Retained Employee in the Spin-Off in respect of such Shares (the "New McKesson Restricted Shares") and (y) the New McKesson Value (as defined in the Distribution Agreement), by (B) the Parent Stock Price on the date of consummation of the Merger. Notwithstanding the foregoing, in the case of any Retained Employee who is, with respect to the Company, subject to the reporting requirements of Section 16 of the Exchange Act, the New McKesson Restricted Shares described herein will not be returned to New McKesson on the day following the Offer Purchase Date (but will remain outstanding for a period of six months and a day thereafter (the "Post-Offer Period"), at which time such New McKesson Restricted

Shares will be returned to New McKesson), and Parent will issue to each such Retained Employee (A) within ten days after the Effective Time, a number of whole shares of Parent Common Stock, rounded up or down to the nearest whole share, equal to the quotient obtained by dividing (1) the Cash Consideration by (2) the Parent Stock Price on the date of consummation of the Merger, and (B) within ten days after the end of the Post-Offer Period, a number of whole shares of Parent Common Stock, rounded up or down to the nearest whole share, equal to the quotient obtained by dividing (3) the product of (x) the New McKesson Restricted Shares of such Retained Employee and (y) the average of the high and low prices of New McKesson Shares on the last day of the Post-Offer Period, by (4) the Parent Stock Price on the last day of the Post-Offer Period. The shares of Parent Common Stock issued as described in the preceding two sentences will be subject to the same terms and conditions as the shares of Parent Common Stock issued to Retained Employees as described in clause (ii) of the third paragraph under the heading "The Merger" above.

The Series Preferred Shares issued and outstanding immediately prior to the Effective Time will be converted at the Effective Time into the right to receive the amount of cash that would have been receivable by a holder of the aggregate number of Shares into which such shares of Series Preferred Shares could have been converted immediately prior to the Effective Time (taking into account for this purpose the adjustment to the conversion price of such Series Preferred Shares required to reflect the Spin-Off). The Company has agreed to use its best efforts to enter into an agreement with the trustee of the Company's Profit Sharing and Investment Plan, as amended (the "PSIP"), pursuant to which the trustee would cause all Series Preferred Shares held by the PSIP to convert into Shares on or prior to the Spin-Off Record Date; provided that in using such best efforts, the Company shall not be obligated to take any actions which would be adverse to the Company or pay any amounts in connection with seeking such agreement.

The Company has agreed to redeem the Cumulative Preferred Shares prior to the Spin-Off Record Date in accordance with the Company's Restated Certificate of Incorporation.

The Merger Agreement provides that the certificate of incorporation and by-laws of the Purchaser at the Effective Time will be the certificate of incorporation and by-laws of the Surviving Corporation. The Merger Agreement also provides that the directors of the Purchaser at the Effective Time will be the directors of the Surviving Corporation and the officers of the Purchaser at the Effective Time will be the officers of the Surviving Corporation.

Recommendation. In the Merger Agreement, the Company states that the Board of Directors has (i) determined that the Offer, the Merger and the Spin-Off are fair to and in the best interests of the stockholders of the Company and (ii) resolved to recommend acceptance of the Offer and approval and adoption and of the Merger Agreement by the Company's stockholders.

Interim Agreements of Parent, Purchaser and the Company. Pursuant to the Merger Agreement, the Company has covenanted and agreed that, during the period from the date of the Merger Agreement to the date directors designated by Parent in accordance with the Merger Agreement constitute in their entirety a majority of the Company's Board of Directors (the "Board Reorganization"), the Company and its subsidiaries will each conduct the operations of the Retained Business according to its ordinary course of business, consistent with past practice, and will conduct the operations of all businesses other than the Retained Business in such a manner that would not have a Material Adverse Effect (as defined in the Merger Agreement) and, with respect to the Retained Business, will use its commercially reasonable efforts to (i) preserve intact its business organization, (ii) maintain its material rights and franchises, (iii) keep available the services of its officers and key employees, and (iv) keep in full force and effect insurance comparable in amount and scope of coverage to that maintained as of the date of the Merger Agreement.

Without limiting the generality of and in addition to the foregoing, and except as otherwise contemplated by the Merger Agreement, prior to the Board Reorganization, neither the Company nor any of its subsidiaries will, without the prior written consent of Parent: (a) except for New McKesson and its subsidiaries, amend its charter or by-laws; (b) subject to certain exceptions, authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments,

subscriptions, rights to purchase or otherwise) any stock of any class or any other securities or amend any of the terms of any such securities (subject to certain exceptions); (c) other than with respect to any subsidiary which is not a Retained Subsidiary split, combine or reclassify any shares of its capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock or redeem or otherwise acquire any of its securities or any securities of its subsidiaries; provided that the Company may declare and pay to holders of (i) Shares regular quarterly dividends of not more than $.42 per Share on the dividend declaration and payment dates normally applicable to the Shares and (ii) preferred stock of the Company any dividends required to be paid thereon in accordance with the express provisions thereof; (d) except for New McKesson or any of its subsidiaries (i) incur, assume or prepay any long-term debt or, except in the ordinary course of business under existing lines of credit, incur, assume, or prepay any material short-term debt; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for any material obligations of any other person except wholly owned subsidiaries of the Company in the ordinary course of business and consistent with past practices; (iii) make any material loans, advances or capital contributions to, or investments in, any other person (other than loans or advances to subsidiaries and customary loans or advances to employees in accordance with past practices); (iv) change the Retained Business' practices with respect to the timing of payments or collections; (v) pledge or otherwise encumber shares of capital stock of the Company or any of its subsidiaries that conduct the Retained Business (other than that of New McKesson and its subsidiaries); or (vi) mortgage or pledge any of the assets, tangible or intangible, of the Retained Business, or create or permit to exist any material lien thereon, other than in the ordinary course of business consistent with past practices; (e) except as disclosed in the Merger Agreement and except for arrangements with new or existing Retained Employees entered into in the ordinary course of business consistent with past practices, enter into, adopt or materially amend any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, pension, retirement, deferred compensation, employment, severance or other employee benefit agreements, trusts, plans, funds or other arrangements of or for the benefit or welfare of any Retained Employee (or any other person for whom the Retained Business will have liability), or (except for normal increases in the ordinary course of business that are consistent with past practices) increase in any manner the compensation or fringe benefits of any Retained Employee (or any other person for whom the Retained Business will have liability) or pay any benefit not required by any existing plan and arrangement (including, without limitation, the granting of stock options, stock appreciation rights, shares of restricted stock or performance units) or enter into any contract, agreement, commitment or arrangement to do any of the foregoing; (f) transfer, sell, lease, license or dispose of any assets relating to the Retained Business outside the ordinary course of business or any assets which are material, in the aggregate, to the Retained Business or enter into any material commitment or transaction with respect to the Retained Business outside the ordinary course of business; (g) acquire or agree to acquire, by merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets of any other person (other than the purchase of assets in the ordinary course of business and consistent with past practice), in each case where such action would, individually, be material to the Retained Business; (h) except as may be required by law, take any action to terminate or materially amend any of its employee benefit plans with respect to or for the benefit of Retained Employees or any other person for whom the Retained Business will have liability; (i) materially modify, amend or terminate (except pursuant to the terms thereof) any of the material contracts of the Retained Business or waive any material rights or claims of the Retained Business, except in the ordinary course of business; (j) effect any material change in any of its methods of accounting in effect as of March 31, 1994, except as may be required by law or generally accepted accounting principles; (k) enter into any material arrangement, agreement or contract with any third party (other than customers in the ordinary course of business consistent with past practices) which provides for an exclusive arrangement with that third party; and (l) take, or agree in writing or otherwise to take, any of the foregoing actions.

Notwithstanding any of the foregoing and in addition to any other rights of the Company and its subsidiaries, the Company and its subsidiaries shall have the right to take any of the actions prohibited as

described in clauses (a) and (d) through (l) of the preceding paragraph if such actions would not, either individually or in the aggregate, adversely impact the Retained Business or the consummation of any of the material transactions contemplated pursuant to the Merger Agreement.

Other Agreements of Parent, the Purchaser and the Company. In the Merger Agreement, the Company has agreed that the Company and its officers, directors, employees, representatives and agents will immediately cease any existing discussions or negotiations with any parties conducted prior to the date of the Merger Agreement with respect to any Acquisition Proposal. The Company and its subsidiaries may not, and will use their best efforts to cause their respective officers, directors, employees and investment bankers, attorneys, accountants or other agents retained by the Company or any of its subsidiaries not to, (i) initiate or solicit, directly or indirectly, any inquiries or the making of any Acquisition Proposal, or (ii) except as permitted below, engage in negotiations or discussions with, or furnish any information or data to any third party relating to an Acquisition Proposal. Notwithstanding anything to the contrary contained in the Merger Agreement, the Company and the Board of Directors of the Company (i) may furnish information to, and participate in discussions or negotiations (including, as a part thereof, making any counterproposal) with, any third party which submits a written Acquisition Proposal to the Company if the Company's Board of Directors determines in good faith, based upon the advice of counsel, that the failure to furnish such information or participate in such discussions or negotiations may reasonably constitute a breach of the Board's fiduciary duties under applicable law, and (ii) may (A) take and disclose to the Company's stockholders a position with respect to the Offer, the Merger or the Spin-Off or another tender or exchange offer by a third party, or amend or withdraw such position, pursuant to Rules 14d-9 and 14e-2 under the Exchange Act or (B) make disclosure to the Company's stockholders, in each case either with respect to or as a result of an Acquisition Proposal, or if the Company's Board of Directors determines in good faith, based upon the advice of counsel, that the failure to take such action may reasonably constitute a breach of the Board's fiduciary duties under, or otherwise violate, applicable law; provided that the Company may not enter into any acquisition agreement with respect to any Acquisition Proposal except concurrently with or after the termination of the Merger Agreement and may not enter into any other agreements with respect to an Acquisition Proposal except concurrently with or after such termination unless, and only to the extent that, such other agreements would facilitate the process of providing information to, or conducting discussions or negotiations with, the party submitting such an Acquisition Proposal, such as confidentiality and standstill agreements. The Company will promptly provide Parent with a copy of any written Acquisition Proposal received and inform Parent on a reasonable basis of the status and content of any discussions with such a third party (provided that the Company shall not be obligated to so provide such information or advise Parent if the Board determines in good faith, based upon the advice of counsel, that such action may reasonably constitute a breach of its fiduciary duties under applicable law). In no event will the Company provide non-public information regarding the Retained Business to any third party making an Acquisition Proposal unless such party enters into a confidentiality agreement containing provisions designed to reasonably protect the confidentiality of such information. In the event that following the date of the Merger Agreement the Company enters into a confidentiality agreement with any third party which does not include terms and conditions which are substantially similar to the "standstill" provisions of the confidentiality agreement between the Company and Parent, then Parent and its affiliates will be released from their obligations under such standstill provisions to the same extent as such third party.

"Acquisition Proposal" means any bona fide proposal made by a third party to acquire (i) beneficial ownership (as defined in Rule 13(d) under the Exchange Act) of a majority equity interest in either the Company or the Retained Business pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, tender offer or exchange offer or similar transaction involving either the Company or the Retained Business, including, without limitation, any single or multi-step transaction or series of related transactions which is structured in good faith to permit such third party to acquire beneficial ownership of a majority or greater equity interest in either the Company or the Retained Business or (ii) all or substantially all of the business or assets of either the Company or of the Retained Business (other than the transactions contemplated by the Merger Agreement); provided, however, that the term "Acquisition

Proposal" does not include any transactions which relate solely to the businesses to be owned by New McKesson and its subsidiaries following the Spin-Off and which do not have a material adverse effect on the consummation of the Offer, the Merger, the Spin-Off or the transactions contemplated thereby.

Between the date of the Merger Agreement and the Effective Time, the Company has agreed to give Parent and its authorized representatives reasonable access to all offices and other facilities and to all books and records of the Company and its subsidiaries relating to the Retained Business, will permit Parent to make such inspections as it may reasonably require and will cause the Company's officers and those of its subsidiaries to furnish Parent and Purchaser with such financial and operating data and other information with respect to the Retained Business as Parent or Purchaser may from time to time reasonably request or any other financial and operating data which materially impacts the Retained Business.

Pursuant to the Merger Agreement, the Company has agreed to amend the Rights Agreement as necessary (i) to prevent the transactions contemplated hereby (including, without limitation, the announcement of the Offer, the consummation of the Offer and the Merger) from resulting in the occurrence of a Distribution Date (as defined in the Rights Agreement) or being deemed to be a Triggering Event or Section 13 Event (each as defined in the Rights Agreement) and (ii) to provide that neither Parent nor the Purchaser shall be deemed to be an Acquiring Person (as defined in the Rights Agreement) or be declared an Adverse Person (as defined in the Rights Agreement) by reason of such transactions.

The Merger Agreement provides that upon the Purchaser acquiring at least a majority of the Shares outstanding on a fully diluted basis, Parent will be entitled to designate for appointment or election to the Company's Board of Directors, such number of persons so that such designees constitute a majority of the Company's Board of Directors, and the Company will use its best efforts to take such actions as may be necessary so as to cause to be appointed or elected such designees, including, without limitation, increasing the number of directors and seeking the resignation of incumbent directors.

Pursuant to the Merger Agreement, if required under applicable law in order to consummate the Merger, the Company will duly call and hold a meeting of its stockholders for the purposes of voting on the approval of the Merger Agreement, use its best efforts to obtain the necessary approvals of the Merger Agreement by its stockholders and, subject to its fiduciary duties, include in the proxy statement related to such meeting its recommendation to approve the Merger Agreement. Parent will provide the Company with the information concerning Parent and the Purchaser required to be included in the proxy materials to be distributed, if necessary, to the Company's stockholders in connection with the Merger and will vote, or cause to be voted, all Shares owned by it or its subsidiaries in favor of approval and adoption of the Merger Agreement.

In accordance with the Merger Agreement, simultaneously with the execution of the Merger Agreement, the Company and certain of its subsidiaries entered into the Distribution Agreement and certain other Ancillary Agreements (see "Spin-Off" below). In addition, pursuant to the Merger Agreement, the Company has agreed to use its best efforts to consummate the Spin-Off and distribute the New McKesson Shares to the holders of Shares as promptly as practicable.

Parent has also agreed in the Merger Agreement to cause the Purchaser to contribute to the Company simultaneously with the consummation of the Offer, a cash amount in immediately available funds equal to $600 million, that will be included in the assets contributed to New McKesson by the Company in connection with the Spin-Off. Such amount shall be subject to adjustment to reflect the exercise of certain Company employee options and the conversion or redemption of certain of the Company Preferred Shares.

The Merger Agreement provides that, prior to the Spin-Off, the Company will use its best efforts to, and will use its best efforts to cause its subsidiaries to, assign to New McKesson or its subsidiaries or terminate all employment agreements and severance agreements with officers of the Company who are not Retained Employees.

The Merger Agreement provides that for a period of three years following the Effective Time, Parent will cause the Surviving Corporation and its successors to provide the employees of the Company and its

subsidiaries remaining with the Company and the Retained Subsidiaries following the Spin-Off and former employees of the Retained Business (collectively, the "Retained Employees") with employee benefits, programs, policies and arrangements which in the aggregate are no less favorable than those provided by the Company to such Retained Employees immediately prior to the date of the Merger Agreement. With respect to such benefits, programs, policies and arrangements, service accrued by such Retained Employees during employment with the Company and its subsidiaries prior to the Effective Time will be preserved and maintained for all purposes except to the extent that benefits may be duplicated. As soon as practicable following the Effective Time, New McKesson will take all action necessary and appropriate to cause the assets and liabilities of the Company Retirement Plan (the "Retirement Plan") attributable to Retained Employees (other than former employees of the Retained Business) to be transferred, in compliance with Section 414(l) of the Code and the Treasury Regulations applicable thereto and on terms reasonably satisfactory to Parent and the Surviving Corporation, to a comparable defined benefit pension plan sponsored by Parent, the Purchaser or the Surviving Corporation in which such employees are eligible to participate. The Company and New McKesson will take all action necessary and appropriate to cause the PSIP, to be assumed by New McKesson, effective as of the Effective Time. In connection with the actions contemplated by the preceding sentence, all of the indebtedness of the Company (and guarantees made by the Company of indebtedness of the trust established under the PSIP) relating to the unallocated Shares and unallocated Series Preferred Shares held by the PSIP will be assumed by New McKesson, effective as of the Effective Time. As soon as practicable after the Effective Time, New McKesson will take all action necessary and appropriate to cause the account balances under the PSIP of Retained Employees (other than former employees of the Retained Business) to be transferred to a defined contribution plan sponsored by Parent, the Purchaser or the Surviving Corporation in which such Retained Employees are eligible to participate.

The Merger Agreement provides that the Company, the Purchaser and Parent will each use its best efforts to consummate the transactions contemplated by the Merger Agreement and the Ancillary Agreements (as defined below), including, without limitation, making filings, responding to requests and resolving objections related to the HSR Act filings. Notwithstanding the foregoing, (i) neither Parent nor any of its subsidiaries or affiliates will be required to agree to divest (A) any of their respective businesses, product lines or assets, if the fair market value of any such businesses, product lines or assets is, as of the date in question, in excess of $10 million or (B) following the consummation of the Offer or the Effective Time, any of the businesses, product lines or assets of the Company or any of the Retained Subsidiaries and (ii) neither Parent nor any of its subsidiaries or affiliates will be required to take or agree to take any action or agree to any limitation which would materially impair Parent's ability to exercise control over or manage the business and affairs of the Retained Business or materially impair Parent's ability to obtain the other benefits provided by the Merger Agreement in order to obtain termination of the waiting period under the HSR Act.

Representations and Warranties. The Merger Agreement contains certain representations and warranties of the parties including, without limitation, representations by the Company as to certain changes concerning its business, undisclosed liabilities, litigation and compliance with law, employee benefit plans, intellectual property, computer software, certain contracts and arrangements, and taxes.

Conditions to the Merger. Pursuant to the Merger Agreement, the obligations of each of Parent, the Purchaser and the Company to effect the Merger are subject to the satisfaction of certain conditions, including: (a) if required by applicable law, the Merger Agreement shall have been adopted by the affirmative vote of the stockholders of the Company by the requisite vote in accordance with applicable law; (b) no statute, rule, regulation, order, decree, or injunction shall have been enacted, entered, promulgated or enforced by any court or governmental authority which prohibits or restricts the consummation of the Merger, (c) any waiting period applicable to the Merger under the HSR Act shall have terminated or expired; (d) the Spin-Off shall have been consummated in all material respects; and (e) the Offer shall not have been terminated in accordance with its terms prior to the purchase of any Shares.

The obligation of the Company to effect the Merger is further subject to the satisfaction at or prior to the Effective Time of the following conditions: (a) the representations and warranties of Parent and the

Purchaser contained in the Merger Agreement shall be true and correct in all material respects at and as of the Effective Time as if made at and as of such time; and (b) each of Parent and the Purchaser shall have performed in all material respects its obligations under the Merger Agreement required to be performed by it at or prior to the Effective Time pursuant to the terms thereof.

Except if the Purchaser shall have accepted for payment and paid for Shares validly tendered pursuant to the Offer or fails to accept for payment any Shares pursuant to the Offer in violation of the terms thereof, the obligations of Parent and the Purchaser to effect the Merger are further subject to the satisfaction at or prior to the Effective Time of the following conditions: (a) the representations and warranties of the Company contained in the Merger Agreement shall be true and correct in all material respects at and as of the Effective Time as if made at and as such time; and (b) the Company shall have performed in all material respects each of its obligations under the Merger Agreement required to be performed by it at or prior to the Effective Time pursuant to the terms thereof.

Termination. The Merger Agreement may be terminated: (a) by mutual written consent of Parent, the Purchaser and the Company; (b) by either Parent, on the one hand, or the Company, on the other hand, if the Offer shall expire or have been terminated in accordance with its terms without any Shares being purchased thereunder, or the Purchaser shall not have accepted for payment or paid for Shares validly tendered pursuant to the Offer prior to December 31, 1994; (c) by Parent, on the one hand, or the Company, on the other hand, if any court of competent jurisdiction in the United States or other United States governmental body shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action shall have become final and nonappealable; (d) by the Company if, prior to the purchase of Shares pursuant to the Offer, either (i) a third party shall have made an Acquisition Proposal and the Board of Directors of the Company determines in good faith, based upon the advice of counsel, that the failure to pursue such Acquisition Proposal may reasonably constitute a breach of its fiduciary duties under applicable law, or (ii) other than in response to an Acquisition Proposal, the Board of Directors of the Company determines in good faith, based upon the advice of counsel, that the failure to so terminate the Merger Agreement would present a substantial likelihood of a breach of its fiduciary duties under applicable law and the Company notifies Parent of such determination of its Board of Directors at least 30 days prior to the date of any termination; or (e) by Parent prior to the purchase of Shares pursuant to the Offer, if the Company or its Board of Directors shall have (i) withdrawn (including by amendment of the Schedule 14D-9) its recommendation to the Company's stockholders of the Offer, the Merger Agreement or the Merger or shall have recommended to the Company's stockholders that they accept the terms of a Third Party Acquisition (as defined below), or (ii) a Third Party Acquisition shall have occurred.

Termination Fee. Pursuant to the Merger Agreement, (a) if the Company terminates the Merger Agreement as described in clause (d)(i) of the preceding paragraph, the Company will, simultaneously with such termination, pay to Parent a fee, in cash, of $100 million; (b) if Parent terminates the Merger Agreement as described in clause (e) of the preceding paragraph and, prior to such termination or within nine months thereafter, a Third Party Acquisition is consummated involving any entity or group (other than Parent and the Purchaser or any affiliate thereof) which is a Higher Offer (as defined below), then the Company will, on the date of such termination or consummation, pay to Parent a fee, in cash, of $100 million; (c) if the Company or Parent terminates the Merger Agreement for any reason other than the bases for terminating the Merger Agreement as described in clauses (a), (d)(i) or (e) of the preceding paragraph (unless Parent or the Purchaser shall at the time of such termination be in material breach, other than a breach which is curable and which Parent and the Purchaser are using their best efforts to cure), and prior to or within nine months after the date of such termination a Third Party Acquisition is consummated involving any entity or group (other than Parent and the Purchaser or any affiliate thereof) which is a Higher Offer, then the Company will, on the date of such termination or consummation, pay to Parent a fee, in cash, of $100 million; (d) if the Company terminates the Merger Agreement as described in clause (d)(ii) of the preceding paragraph (unless Parent or the Purchaser shall at the time of such termination be in material breach, other than a breach which is curable and which Parent and the Purchaser are using their best efforts to cure), the Company will, simultaneously with such termination, pay to Parent a fee, in cash, of $40 million.

"Third Party Acquisition" means the occurrence of any of the following events: (i) the acquisition of the Company by merger or otherwise by any person (which includes a "person" as such term is defined in Section 13(d)(3) of the Exchange Act) or entity other than Parent, the Purchaser or any affiliate thereof (a "Third Party"); (ii) the acquisition by a Third Party of more than 50% of the total assets of the Company and its subsidiaries, taken as a whole, or of 50% or more of the total assets of the Retained Business; or (iii) the acquisition by a Third Party of 50% or more of the outstanding Shares, or 50% or more of the equity interest in, or the voting power with respect to the election of directors of, the Retained Business.

"Higher Offer" means any Third Party Acquisition which reflects a higher value for the Retained Business than the value being provided by Parent pursuant to the Offer, the Merger and the Additional Agreements (as defined in the Merger Agreement). In valuing such a Third Party Acquisition, due regard shall be given to the value to the Company or its stockholders of any additional arrangements involved in such Third Party Acquisition.

Pursuant to the Merger Agreement, in the event of the termination and abandonment of the Merger Agreement, the Merger Agreement will become void and have no effect, without any liability on the part of any party or its directors, officers or stockholders, other than certain provisions of the Merger Agreement, including the provisions relating to the termination fee and confidentiality of information, provided, that a party will not be relieved from liability for any willful breach of the Merger Agreement. Notwithstanding anything to the contrary contained in the Merger Agreement, upon payment by the Company of the fees and expenses referred to in Section 8.3 of the Merger Agreement, the Company will be released from all liability thereunder, including any liability for any claims by Parent, the Purchaser or any of their affiliates based upon or arising out of any breach of the Merger Agreement or any Ancillary Agreement. In no event will the Company be required to pay more than one fee pursuant to Section 8.3 of the Merger Agreement, provided that if the Company will have paid the $40 million fee contemplated by Section 8.3(d) of the Merger Agreement and a $100 million fee will otherwise become payable pursuant to Section 8.3 of the Merger Agreement, the Company will pay Parent at that time $60 million.

Costs and Expenses. Except as discussed above, the Merger Agreement provides that each party will bear its own costs and expenses incurred in connection with the transactions contemplated by the Merger Agreement.

THE SPIN-OFF

The Merger Agreement contemplates that, prior to the Effective Time pursuant to the Distribution Agreement, the Company will distribute one New McKesson Share in respect of each Share outstanding on the Spin-Off Record Date. The Offer is conditioned upon, among other things, the satisfaction of the Spin-Off Condition and the Merger is conditioned upon, among other things, the Spin-Off having been consummated in all material respects. The Spin-Off is conditioned upon Shares having been accepted for payment pursuant to the Offer. In the Merger Agreement, the Company has agreed, subject to the provisions of the Distribution Agreement, to use its best efforts to effect the Spin-Off as soon as reasonably practicable. Neither Parent nor the Purchaser will acquire New McKesson Shares with respect to any Shares acquired pursuant to the Offer. The Company has advised Parent and the Purchaser that, at the time notice of the Spin-Off Record Date is given, it expects to distribute to holders of Shares and Company Preferred Shares the Information Statement with respect to the business, operations and management of New McKesson. In the Distribution Agreement, the Company and New McKesson have agreed to prepare, and New McKesson agreed to file and seek to make effective, an application to permit the listing of the New McKesson Shares either on the NYSE or any other national securities exchange as selected by New McKesson in its sole discretion.

While neither Parent nor the Purchaser is a party to the Distribution Agreement, the parties thereto have agreed not to amend the Distribution Agreement or any of the other agreements entered into in connection with the Distribution Agreement if such amendment would adversely affect the Retained Business or New McKesson's performance of its obligations under such agreement without the prior written consent of Parent. Pursuant to the Distribution Agreement, New McKesson has agreed, among other things, to

indemnify the Company, the Purchaser and Parent and each of their respective directors, officers, employees, representatives, advisors, agents and affiliates from and after the Purchaser's purchase of Shares pursuant to the Offer against losses resulting from any breach of any representation or warranty made by the Company in the Merger Agreement, any breach by the Company of the covenants and agreements set forth in the Merger Agreement and all liabilities and obligations of the Company other than those of the Retained Business. No indemnification for breaches of representations or warranties will be made by New McKesson unless the aggregate amount of such losses exceeds $10 million and then only to the extent that the aggregate amount exceeds $10 million. In no event will New McKesson's aggregate obligation to indemnify Parent for breaches of representations, warranties, covenants, or agreements exceed $200 million, but such limitation shall not apply to willful breach of covenants and agreements or to failures to pay and discharge liabilities and obligations of the Company other than those of the Retained Business. Parent's claims for indemnification for breaches of representations, warranties and covenants made in the Merger Agreement must be asserted within nine months of the Offer Purchase Date.

In connection with the Merger Agreement, the parties entered into a Tax Sharing Agreement, an HDS Services Agreement, a McKesson Services Agreement, a Memorandum of Understanding and a Non-Competition Agreement (together with the Distribution Agreement, the "Ancillary Agreements"). The Tax Sharing Agreement provides, among other things, for the allocation of payment of certain tax liabilities and entitlement to certain refunds among Parent, the Purchaser, New McKesson and the Company. Pursuant to the HDS Services Agreement, Healthcare Delivery Systems, Inc., a Delaware corporation ("HDS"), has agreed to provide, upon the request of Parent or PCS, certain services relating to drug sampling and other promotional programs, financial assistance programs for patients, reimbursement support and patient advocacy programs, clinical trial support services, and product hot-line programs, to Parent or PCS on terms that are as favorable as the best terms offered by HDS for comparable services to other HDS customers. PCS has agreed, among other things, to provide HDS with certain data processing and transmission services made available to PCS customers as well as customer support services. Pursuant to the McKesson Services Agreement, PCS has agreed, among other things, to allow certain New McKesson-affiliated retail stores to participate in its Restricted and Unrestricted Networks (as defined in the McKesson Services Agreement) so long as such stores otherwise meet the requirements for the networks, and to consider in good faith providing New McKesson with PCS data regarding pharmacies. New McKesson has agreed that if it contracts with customers to provide managed pharmacy benefits, it will only provide such benefits through PCS. The Memorandum of Understanding describes a number of business opportunities that the parties intend to discuss in developing their business relationship. The areas to be considered include generics cooperation, managed care support, pharmacy marketing, compliance programs and wholesale distribution issues. The Non-Competition Agreement provides that, for a period of five years from the Expiration Date, New McKesson will not engage anywhere in the world (except Mexico) in any activity in competition in any material respect with the businesses acquired by Parent pursuant to the Offer and the Merger, subject to specified exceptions.

The foregoing summary of the Ancillary Agreements does not purport to be complete and is qualified in its entirety by reference to the text of the Ancillary Agreements, a copy of each of which is filed as an Exhibit to the Tender Offer Statement on Schedule 14D-1 filed by Parent and the Purchaser with the Commission (the "Schedule 14D-1") and is incorporated herein by reference. The Schedule 14D-1 may be inspected and copies may be obtained from the offices of the Commission in the same manner as set forth in Section 7.

THE RIGHTS AGREEMENT

Pursuant to the Rights Agreement, on May 7, 1986 the Board of Directors of McKesson Corporation, a Maryland corporation ("McKesson--Maryland"), declared a dividend distribution of one Original Right for each share of its common stock outstanding at the close of business on May 29, 1986. On October 1, 1986, a two-for-one split of the common stock of McKesson--Maryland became effective and the Original Rights thereafter outstanding were automatically proportionately adjusted so that each share of split common stock was accompanied by one-half of an Original Right. Pursuant to a Plan and Agreement of Reorganization

dated as of June 15, 1987 between McKesson Acquisition Company, McKesson--Maryland and the Company and an Agreement of Merger dated as of June 15, 1987 each share of then outstanding split common stock was converted into one share of Common Stock. Each Right issued pursuant to the amended Rights Agreement entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Preferred Stock at a price of $175.00, subject to adjustment.

Until the earliest to occur of (i) ten business days following the date (the "Stock Acquisition Date") of public announcement that a person or group of affiliated or associated persons acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of the Common Stock (an "Acquiring Person"), (ii) ten business days following the commencement or first public announcement of the intent of any person to commence a tender offer or exchange offer if, upon consummation thereof, such person would have beneficial ownership of 20% or more of the shares of Common Stock then outstanding or (iii) ten business days following a determination by the Board of Directors that (x) a person or group of affiliated or associated persons (such person or group, being called an "Adverse Person") has, at any time after May 7, 1986, become the beneficial owner of an amount of Common Stock that the Board of Directors determines is substantial and (y) such beneficial ownership is causing or is reasonably likely to cause a material adverse impact on the business or prospects of the Company or is intended to cause the Company to take action which the Board of Directors determines is not in the best long-term interests of the Company and its stockholders (the earliest of such dates being called the "Distribution Date"), the Rights are evidenced by the certificates evidencing the Common Stock. Until the Distribution Date, the Rights will be transferred with and only with the Shares. As soon as practicable following the Distribution Date, separate certificates evidencing the Rights ("Right Certificates") will be mailed to holders of record of Shares as of the close of business on the Distribution Date and such separate Right Certificates alone will evidence the Rights. Right Certificates shall represent only whole numbers of Rights and cash will be paid in lieu of any fractional Rights. The Rights are not exercisable until the Distribution Date. The Rights will expire at the close of business on May 29, 1996 unless earlier redeemed by the Company as described below.

In the event that (i) a person becomes the beneficial owner of 20% or more of the then outstanding shares of Common Stock (except pursuant to an offer for all outstanding shares of Common Stock that the independent directors determine to be fair to and otherwise in the best interests of the Company and its stockholders) or (ii) the Board of Directors determines that a person is an Adverse Person, each holder of a Right will thereafter have the right to receive, upon exercise, Common Stock (or, in certain circumstances, cash, property or other securities of the Company having a value equal to two times the exercise price of the Right). Any Rights beneficially owned by an Acquiring Person or an Adverse Person shall be null and void. Rights are not exercisable following the occurrence of either of the events set forth above until such time as the Rights are no longer redeemable by the Company as set forth below.

In the event that, at any time following the Stock Acquisition Date, (i) the Company consolidates with, or merges with or into, any other person, with some exceptions in the case of consolidation or merger with a subsidiary of the Company, and the Company is not the surviving corporation of such consolidation or merger, (ii) any person, with some exception in the case of a subsidiary of the Company, consolidates with, or merges with or into, the Company, and the Company is the surviving corporation and, in connection with such consolidation or merger, all or part of the outstanding shares of Common Stock are changed or converted into or exchanged for stock or other securities of any other Person or cash or any other property or (iii) more than 50% of the Company's assets, cash flow or earning power is sold or transferred, each holder of a Right (except Rights which previously have been voided as set forth above) shall thereafter have the right to receive, upon exercise, common stock of the acquiring company having a value equal to two times the exercise price of the Right. The events set forth in this paragraph and in the preceding paragraph are referred to as the "Triggering Events."

At any time prior to the earlier of (i) the close of business on the tenth day following the Stock Acquisition Date and (ii) May 29, 1996, the Company may redeem the Rights in whole, but not in part, at a price of $.05 per Right (the "Redemption Price").

Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder of the Company, including, without limitation, the right to vote or to receive dividends.

Other than those provisions relating to the Redemption Price, the Final Expiration Date, the Purchase Price or the number of one one-hundredths of a share of Preferred Stock for which a Right is exercisable, any of the provisions of the Rights Agreement may be amended by the Board of Directors of the Company prior to the Distribution Date. After the Distribution Date, the provisions of the Rights Agreement may be amended by the Board in order to cure any ambiguity, defect or inconsistency, to make changes which do not adversely affect the interests of holders of Rights (excluding the interests of any Acquiring Person or Adverse Person), or, with certain limitations, to shorten or lengthen any time period under the Rights Agreement.

Because (i) the Offer is an offer to purchase all of the outstanding Shares and the Board has unanimously determined that the Offer described herein is fair to and in the best interests of the Company's stockholders and (ii) on July 10, 1994, the Board of Directors approved amending the Rights Agreement in accordance with the terms of the Merger Agreement, the acquisition of Shares pursuant to the Offer or the consummation of the Merger will not (a) cause any person to become an Acquiring Person or an Adverse Person, (b) cause the Distribution Date to occur or (c) give rise to a Triggering Event.

11. PURPOSE OF THE OFFER, THE MERGER AND THE SPIN-OFF; PLANS FOR THE COMPANY.

Purpose of the Offer. The purpose of the Offer, the Merger and the Spin-Off is for the Purchaser to acquire control of the entire equity interest of the Retained Business. Consummation of the Offer will provide the Purchaser with at least a majority equity interest in the Company. As described above, as a result of the Spin-Off, the Company will continue to own only the Retained Business. The Merger will allow the Purchaser to acquire all outstanding Shares not tendered and purchased pursuant to the Offer. The acquisition of the entire equity interest in the Retained Business has been structured as a cash tender offer followed by the Spin-Off and a cash merger in order to provide a prompt and orderly transfer of ownership of the Retained Business from the public stockholders to Parent and to provide stockholders with cash and New McKesson Shares for all their Shares. The purchase of Shares pursuant to the Offer will increase the likelihood that the Merger will be effected. Parent expects that after completion of the Offer, Parent will consider entering into possible arrangements with others regarding participation in the ownership of the Retained Business or regarding the inclusion of the Retained Business in possible marketing alliances. There can be no assurance that any such arrangements will occur.

Except as noted in this Offer to Purchase, neither Parent nor the Purchaser has any present plans or proposals that would result in an extraordinary corporate transaction, such as a merger, reorganization, liquidation, relocation of operations, or sale or transfer of assets, involving the Company or any of its subsidiaries, or any material changes in the Company's corporate structure or business or the composition of its management or personnel.

12. EFFECT OF THE OFFER ON THE MARKET FOR THE SHARES; STOCK EXCHANGE LISTING; REGISTRATION UNDER THE EXCHANGE ACT; REDEMPTION OF CUMULATIVE PREFERRED SHARES. The purchase of Shares pursuant to the Offer will reduce the number of Shares that might otherwise trade publicly and may reduce the number of holders of Shares, which could adversely affect the liquidity and market value of the remaining Shares held by stockholders other than the Purchaser. The Purchaser cannot predict whether the reduction in the number of Shares that might otherwise trade publicly would have an adverse or beneficial effect on the market price for or marketability of the Shares or whether it would cause future market prices to be greater or less than the Offer price.

Depending upon the number of Shares purchased pursuant to the Offer, the Shares may no longer meet the requirements of the NYSE and the PSE for continued listing and may, therefore, be delisted from such exchanges. According to the NYSE's published guidelines, the NYSE could consider delisting the Shares if, among other things, the number of publicly held Shares (excluding Shares held by officers, directors, their immediate families and other concentrated holdings of 10% or more) were less than 600,000, there were less

than 1,200 holders of at least 100 shares or the aggregate market value of the publicly held Shares were less than $5 million. According to the PSE's published guidelines, the PSE could consider delisting the Shares if, among other things, there were fewer than 100,000 publicly held Shares exclusive of management and other concentrated holdings, there were fewer than 500 record holders, there were fewer than 200 holders of record of at least 100 Shares or the aggregate market value of publicly held Shares (exclusive of management and other concentrated holdings) should fall below $500,000 for a six month period. If, as a result of the purchase of Shares pursuant to the Offer, the Shares no longer meet the requirements of the NYSE or the PSE for continued listing and the listing of Shares on such exchanges is discontinued, the market for the Shares could be adversely affected.

If the NYSE and the PSE were to delist the Shares, it is possible that the Shares would trade on another securities exchange or in the over-the-counter market and that price quotations for the Shares would be reported by such exchange or through NASDAQ or other sources. The extent of the public market for the Shares and availability of such quotations would, however, depend upon such factors as the number of holders and/or the aggregate market value of the publicly held Shares at such time, the interest in maintaining a market in the Shares on the part of securities firms, the possible termination of registration of the Shares under the Exchange Act and other factors.

The Shares are currently "margin securities" under the regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), which has the effect, among other things, of allowing brokers to extend credit on the collateral of the Shares. Depending upon factors similar to those described above regarding listing and market quotations, the Shares might no longer constitute "margin securities" for the purposes of the Federal Reserve Board's margin regulations and, therefore, could no longer be used as collateral for loans made by brokers.

The Shares are currently registered under the Exchange Act. Such registration may be terminated if the Shares are not listed on a national securities exchange and there are fewer than 300 holders of record. Termination of the registration of the Shares under the Exchange Act would substantially reduce the information required to be furnished by the Company to holders of Shares and to the Commission and would make certain of the provisions of the Exchange Act, such as the short-swing profit recovery provisions of Section 16 (b), the requirement of furnishing a proxy or information statement in connection with stockholder action and the related requirement of an annual report to stockholders and the requirements of Rule 13e-3 under the Exchange Act with respect to "going private" transactions, no longer applicable to the Shares. Furthermore, "affiliates" of the Company and persons holding "restricted securities" of the Company may be deprived of the ability to dispose of such securities pursuant to Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act"). If registration of the Shares under the Exchange Act were terminated, the Shares would no longer be "margin securities" or eligible for listing on a securities exchange or NASDAQ reporting. It is the current intention of Parent to deregister the Shares and the Company Preferred Shares after consummation of the Offer if the requirements for termination of registration are met.

The Company has agreed to redeem all outstanding Cumulative Preferred Shares prior to the Spin-Off Record Date in accordance with the terms of the instruments governing the Cumulative Preferred Shares. Upon the completion of such redemption, Cumulative Preferred Shares will cease to be registered under the Exchange Act and such deregistration will have the same effect on the Cumulative Preferred Shares as the effect on the Shares of deregistration under the Exchange Act described above.

13. DIVIDENDS AND DISTRIBUTIONS. If, on or after the date of the Merger Agreement, the Company should (i) split, combine or otherwise change the Shares or its capitalization, (ii) issue or sell any additional securities of the Company or otherwise cause an increase in the number of outstanding securities of the Company (except for Shares issuable upon the exercise of employee stock options outstanding on the date of the Merger Agreement) or (iii) acquire currently outstanding Shares or otherwise cause a reduction in the number of outstanding Shares, then, without prejudice to the Purchaser's rights under Sections 1 and 15, the Purchaser, in its sole discretion, subject to the terms of the Merger Agreement, may make such adjustments as it deems appropriate in the purchase price and other terms of the Offer.

If, on or after the date of the Merger Agreement, the Company should declare or pay any dividend on the Shares or make any distribution (including, without limitation, cash dividends, the issuance of additional Shares pursuant to a stock dividend or stock split, the issuance of other securities or the issuance of rights for the purchase of any securities, but excluding any regular quarterly dividend on the Shares of not more than $0.42 per share on the dividend and payment dates normally applicable to the Shares) with respect to the Shares, other than New McKesson Shares payable or distributable in respect of the Shares in connection with the Spin-Off, that is payable or distributable to stockholders of record on a date prior to the transfer to the name of the Purchaser or its nominee or transferee on the Company's stock transfer records of the Shares purchased pursuant to the Offer, then, without prejudice to the Purchaser's rights under Sections 1 and 15, any such dividend, distribution or right to be received by the tendering stockholders will be received and held by the tendering stockholders for the account of the Purchaser and will be required to be promptly remitted and transferred by each tendering stockholder to the Depositary for the account of the Purchaser, accompanied by appropriate documentation of transfer. Pending such remittance and subject to applicable law, the Purchaser will be entitled to all rights and privileges as owner of any such dividend, distribution or right and may withhold the entire purchase price or deduct from the purchase price the amount or value thereof, as determined by the Purchaser in its sole discretion.

14. EXTENSION OF TENDER PERIOD; AMENDMENT; TERMINATION. The Purchaser expressly reserves the right, in its sole discretion, at any time or from time to time, regardless of whether or not any of the events set forth in Section 15 shall have occurred or shall have been determined by the Purchaser to have occurred, subject to the terms of the Merger Agreement and applicable rules of the Commission, (i) to extend the period of time during which the Offer is open and thereby delay acceptance for payment of, and the payment for, any Shares, by giving oral or notice of such extension to the Depositary and (ii) to amend the Offer in any respect by giving oral or written notice of such amendment to the Depositary. In the Merger Agreement, Parent and the Purchaser have agreed not to extend the Expiration Date beyond the first business day following the Record Date without the prior written consent of the Company unless one or more of the conditions set forth in Section 15 shall not be satisfied or unless Parent reasonably determines, with the prior approval of the Company (such approval not to be unreasonably withheld or delayed) that such extension is necessary to comply with any legal or regulatory requirements relating to the Offer. In addition, the Purchaser has agreed in the Merger Agreement not to amend the terms or conditions of the Offer to change the form of consideration to be paid or decrease the price per Share or the number of Shares sought in the Offer or to impose conditions to the Offer in addition to those set forth in Section 15 or broaden the scope of such conditions or to otherwise amend the terms and conditions of the Offer in a manner adverse to the holders of Shares. The rights reserved by the Purchaser in this paragraph are in addition to the Purchaser's rights to terminate the Offer pursuant to Section 15. Any extension, amendment or termination will be followed as promptly as practicable by public announcement thereof, the announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date in accordance with the public announcement requirements of Rules 14d-4(c) and 14e-1(d) under the Exchange Act. Any reduction in the purchase price pursuant to the Merger Agreement will be considered an amendment to the Offer, and will be followed by the appropriate announcement. Without limiting the obligation of the Purchaser under such Rules or the manner in which the Purchaser may choose to make any public announcement, the Purchaser currently intends to make announcements by issuing a release to the Dow Jones News Service or the Reuters News Service.

The Purchaser also reserves the right, in its sole discretion, subject to the terms of the Merger Agreement, in the event any of the conditions specified in Section 15 shall not have been satisfied and so long as Shares have not theretofore been accepted for payment, to delay (except as otherwise required by applicable law) acceptance for payment of or payment for Shares or to terminate the Offer and not accept for payment or pay for Shares.

If the Purchaser extends the Offer, or if the Purchaser (whether before or after its acceptance for payment of Shares) is delayed in its purchase of or payment for Shares or is unable to pay for Shares pursuant to the

Offer for any reason, then, without prejudice to the Purchaser's rights under the Offer, the Depositary may retain tendered shares on behalf of the Purchaser, and such Shares may not be withdrawn except to the extent tendering stockholders are entitled to withdrawal rights as described in Section 4. However, the ability of the Purchaser to delay the payment for Shares which the Purchaser has accepted for payment is limited by Rule 14e-1 (c) under the Exchange Act, which requires that a bidder pay the consideration offered or return the securities deposited by or on behalf of holders of securities promptly after the termination or withdrawal of such bidder's offer.

If the Purchaser makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer (including the Minimum Condition), the Purchaser will disseminate additional tender offer materials and extend the Offer to the extent required by Rules 14d-4(c) and 14d-6 (d) under the Exchange Act. The minimum period during which the Offer must remain open following material changes in the terms of the Offer or information concerning the Offer, other than a change in price or a change in percentage of securities sought, will depend upon the facts and circumstances, including the relative materiality of the terms or information. With respect to a change in price or a change in percentage of securities sought, a minimum ten business day period is generally required to allow for adequate dissemination to stockholders and investor response. If prior to the Expiration Date, the Purchaser should decide to increase the price per Share being offered in the Offer, such increase will be applicable to all stockholders whose Shares are accepted for payment pursuant to the Offer. As used in this Offer to Purchase, "business day" means any day other than Saturday, Sunday or a federal holiday and consists of the time period from 12:01 A.M. through 12:00 Midnight, New York City time as computed in accordance with Rule 14d-1 under the Exchange Act.

15. CERTAIN CONDITIONS TO THE OFFER. Notwithstanding any other provision of the Offer, the Purchaser shall not be required to purchase any Shares tendered, and may terminate the Offer, if (i) immediately prior to the expiration of the Offer (as extended in accordance with the terms of the Offer), (A) any applicable waiting period under the HSR Act shall not have expired or been terminated, (B) the Spin-Off Condition shall not have been satisfied or (C) the Minimum Condition shall not have been satisfied, or (ii) on or after July 10, 1994 and prior to the acceptance for payment of Shares, any of the following events shall occur:

(a) any of the representations or warranties of the Company contained in the Merger Agreement shall not have been true and correct at the date when made or (except for those representations and warranties made as of a particular date which need only be true and correct as of such date) shall cease to be true and correct at any time prior to consummation of the Offer, except where the failure to be so true and correct would not, individually or in the aggregate, have a material adverse effect on the business, results of operations or financial condition of the Retained Business (a "Material Adverse Effect"); provided that, if any such failure to be so true and correct is curable by the Company through the exercise of its best efforts and for so long as the Company continues to use such best efforts, the Purchaser may not terminate the Offer under this clause (a); or

(b) the Company shall have breached any of its covenants or agreements contained in the Merger Agreement, except for any such breaches that, individually or in the aggregate, would not have a Material Adverse Effect; provided that, if any such breach is curable by the Company through the exercise of its best efforts and for so long as the Company continues to use such best efforts, the Purchaser may not terminate the Offer under this clause (b); or

(c) there shall be any statute, rule, regulation, decree, order or injunction promulgated, enacted, entered, or enforced or any legal or administrative proceeding initiated by any United States federal or state government, governmental authority or court, which would (i) prohibit the Purchaser from consummating the Offer, the Merger or the Spin-Off, (ii) impose any material adverse limitation on the ability of Parent to exercise full rights of ownership of the Shares or to control the Retained Business or (iii) have a Material Adverse Effect (provided that the provisions of this clause (iii) shall only apply in the event of any statute, rule, regulation, decree, order or injunction (A) which is enacted or entered into following the date of the Merger Agreement and (B) the substantive provisions of which were initially proposed for enactment following the date of the Merger Agreement ; or

(d) there shall have been any damage, destruction or loss affecting the facilities or properties (tangible or intangible) owned or used by the Retained Business, which would result in a Material Adverse Effect; provided that, if any such damage, destruction or loss is curable by the Company through the exercise of its best efforts and for so long as the Company continues to use such best efforts, the Purchaser may not terminate the Offer under this clause (d); or

(e) there shall have occurred (i) any general suspension of trading in securities on the NYSE, (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, or (iii) a commencement of a war or armed hostilities involving the United States, which in the case of any of the foregoing clauses (i), (ii) or (iii) would have a Material Adverse Effect; or

(f) any person, entity or "group" (as that term is used in Section 13(d)(3) of the Exchange Act) has become the beneficial owner (as that term is defined in Rule 13d-3 under the Exchange Act) of more than thirty percent (30%) of the Shares outstanding on a fully diluted basis, or has been granted any option or right, condition or otherwise, to acquire or vote more than thirty percent (30%) of the Shares; or

(g) the Merger Agreement shall have been terminated in accordance with its terms.

The foregoing conditions are for the sole benefit of the Purchaser and may be asserted by the Purchaser regardless of the circumstances giving rise to such conditions, or may be waived by the Purchaser in whole or in part at any time and from time to time in its sole discretion; provided that the conditions set forth in clauses (i)(A), (B) and (C) or (ii)(g) above may be waived only by mutual consent of the Purchaser and the Company.

16. CERTAIN LEGAL MATTERS; REGULATORY APPROVALS. Except as described in this Section 16, based on a review of publicly available filings by the Company with the Commission and other publicly available information concerning the Company, neither Parent nor the Purchaser is aware of any license or regulatory permit that appears to be material to the business of the Company and its subsidiaries, taken as a whole, that might be adversely affected by the acquisition of Shares by the Purchaser or Parent pursuant to the Offer, the Merger or otherwise or of any approval or other action by any governmental, administrative or regulatory agency or authority, domestic or foreign, that would be required prior to the acquisition of Shares by the Purchaser or Parent pursuant to the Offer, the Merger or otherwise. Should any such approval or other action be required, Parent and the Purchaser currently contemplate that it will be sought. While the Purchaser does not currently intend to delay the acceptance for payment of Shares tendered pursuant to the Offer pending the outcome of any such matter, there can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that adverse consequences might not result to the business of the Company or the Purchaser Entities or that certain parts of the business of the Company or the Purchaser Entities might not have to be disposed of in the event that such approvals were not obtained or any other actions were not taken. The Purchaser's obligation under the Offer to accept for payment and pay for Shares is subject to certain conditions, including conditions relating to the legal matters discussed in this Section 16. See Section 15.

State Takeover Statutes. The Company is incorporated under the laws of the State of Delaware. Section 203 of the GCL limits the ability of a Delaware corporation to engage in business combinations with "interested stockholders" (defined as any beneficial owner of 15% or more of the outstanding voting stock of the corporation) unless, among other things, the corporation's board of directors has given its prior approval to either the business combination or the transaction which resulted in the stockholder becoming an "interested stockholder." The Company has represented in the Merger Agreement that it properly elected that Section 203 of the GCL be inapplicable to the Company. At a meeting on July 10, 1994, the Board of Directors approved the Merger Agreement, the Merger, the Offer and the Purchaser's purchase of Shares pursuant to the Offer. Accordingly, the provisions of Section 203 of the GCL have been satisfied with respect to the Offer and the Merger and such provisions will not delay the consummation of the Merger.

A number of other states adopted "takeover" statutes that purport to apply to attempts to acquire corporations that are incorporated in such states, or whose business operations have substantial economic

effects in such states, or which have substantial assets, security holders, employees, principal executive offices or places of business in such states.

In Edgar v. MITE Corporation, the Supreme Court of the United States invalidated on constitutional grounds the Illinois Business Takeover Act, which, as a matter of state securities law, made takeovers of corporations meeting certain requirements more difficult. However, in CTS Corp. v. Dynamics Corp. of America, the Supreme Court held that a state may, as a matter of corporate law and, in particular, those laws concerning corporate governance, constitutionally disqualify a potential acquirer from voting on the affairs of a target corporation without prior approval of the remaining stockholders, provided that such laws were applicable under certain conditions, in particular, that the corporation has a substantial number of stockholders in the state and is incorporated there.

The Company, directly or through subsidiaries, conducts business in a number of states throughout the United States, some of which have enacted "takeover" statutes. The Purchaser does not know whether any of these statutes will, by their terms, apply to the Offer, and has not complied with any such statutes other than those adopted by the State of Delaware. To the extent that certain provisions of these statutes purport to apply to the Offer, the Purchaser believes that there are reasonable bases for contesting such statutes. If any person should seek to apply any state takeover statute, the Purchaser would take such action as then appears desirable, which action may include challenging the validity or applicability of any such statute in appropriate court proceedings. If it is asserted that one or more takeover statutes apply to the Offer, and it is not determined by an appropriate court that such statute or statutes do not apply or are invalid as applied to the Offer, the Purchaser might be required to file certain information with, or receive approvals from, the relevant state authorities, and the Purchaser might be unable to purchase or pay for Shares tendered pursuant to the Offer, or be delayed in continuing or consummating the Offer. In such case, the Purchaser may not be obligated to accept for payment or pay for Shares tendered. See Section 15.

Antitrust. Under the HSR Act, certain acquisitions may not be consummated unless information has been furnished to the Federal Trade Commission and the Antitrust Division of the Department of Justice and certain waiting period requirements have been satisfied. The Offer and the acquisition of Shares pursuant to the Merger Agreement are subject to the HSR Act, which provides that certain acquisition transactions may not be consummated unless certain information has been furnished to the Antitrust Division of the Department of Justice (the "Antitrust Division") and the Federal Trade Commission ("FTC") and certain waiting period requirements have been satisfied. On July 11, 1994 Parent filed a Notification and Report Form with respect to the Offer.

Under the provisions of the HSR Act applicable to the Offer, the purchase of Shares under the Offer may not be consummated until the expiration of a 15-calendar day waiting period following the filing by Parent. Accordingly, the waiting period with respect to the Offer will expire at 11:59 p.m., New York City time, on July 26, 1994, unless Parent receives a request for additional information or documentary material, or the Antitrust Division and the FTC terminate the waiting period prior thereto. If, within such 15-day waiting period, either the Antitrust Division or the FTC requests additional information or material from Parent concerning the Offer, the waiting period will be extended and would expire at 11:59 p.m., New York City time, on the tenth calendar day after the date of substantial compliance by Parent with such request. Only one extension of the waiting period pursuant to a request for additional information is authorized by the HSR Act. Thereafter, such waiting period may be extended only by court order or with the consent of Parent. The Purchaser will not accept for payment Shares tendered pursuant to the Offer unless and until the waiting period requirements imposed by the HSR Act with respect to the Offer have been satisfied. See Section 15.

No separate HSR Act waiting period requirements with respect to the Merger Agreement will apply, so long as the 15-day waiting period expires or is terminated. Thus, all Shares may be acquired pursuant to the Offer at the close of the 15-day waiting period or on the tenth calendar day after the date of substantial compliance with a request for additional information.

The FTC and the Antitrust Division frequently scrutinize the legality under the antitrust laws of transactions such as the Purchaser's acquisition of Shares pursuant to the Offer and the Merger Agreement. At any time before or after the Purchaser's acquisition of Shares, the Antitrust Division or the FTC could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the acquisition of Shares pursuant to the Offer or otherwise or seeking divestiture of Shares acquired by the Purchaser or divestiture of substantial assets of Parent or its subsidiaries. Private parties and state attorneys general may also bring legal action under the antitrust laws under certain circumstances. Based upon an examination of publicly available information relating to the businesses in which Parent and the Company are engaged, Parent and the Purchaser believe that the acquisition of Shares by the Purchaser will not violate the antitrust laws. Nevertheless, there can be no assurance that a challenge to the Offer or other acquisition of Shares by the Purchaser on antitrust grounds will not be made or, if such a challenge is made, of the result. See Section 15 for certain conditions to the Offer, including conditions with respect to litigation and certain governmental actions.

Commission Approval of Information Statement. The Company intends to file the Information Statement with the Commission as part of a registration statement of the New McKesson Shares under the Exchange Act. The Company may not distribute the Information Statement or the New McKesson Shares until the Commission has reviewed such registration statement and declared it effective.

Margin Rules. The Purchaser and Parent believe that the requirements of the margin regulations promulgated by the Federal Reserve Board are not applicable to the financing of the Offer and the Merger.

Short-Form Merger. Section 253 of the GCL would permit the Merger to occur without a vote of the Company's stockholders (a "short-form merger") if the holders of all of the outstanding Series Preferred Shares were to convert their Series Preferred Shares into Shares prior to the Expiration Date and the Purchaser were to acquire at least 90% of all of the outstanding Shares in the Offer. If all such holders convert their Series Preferred Shares and the Purchase acquires 90% or more of the outstanding Shares in the Offer, the Purchaser intends to cause the Merger to occur as a short-form merger.

17. FEES AND EXPENSES. Parent and the Purchaser have engaged Lehman Brothers to act as financial advisor to Parent and as Dealer Manager in connection with the Offer. Parent has agreed to pay Lehman Brothers $1 million as compensation for its services as Dealer Manager and additional amounts for its services as financial advisor, which additional amounts are in part contingent upon the consummation of the Offer. The Purchaser also has agreed to reimburse Lehman Brothers for its expenses, including reasonable counsel fees, and to indemnify it against certain liabilities and expenses, including certain liabilities under the federal securities laws.

The Purchaser has retained D.F. King & Co., Inc. to act as the Information Agent and Citibank, N.A. to act as the Depositary in connection with the Offer. The Information Agent may contact holders of Shares by mail, telephone, telex, facsimile, telegraph and personal interview and may request brokers, dealers, commercial banks, trust companies and other nominees to forward the Offer material to beneficial owners. The Information Agent and Depositary each will receive reasonable and customary compensation for their services, will be reimbursed for certain reasonable out-of-pocket expenses and will be indemnified against certain liabilities and expenses in connection therewith, including certain liabilities under the federal securities laws. The Depositary has not been retained to make solicitations or recommendations in connection with the Offer.

Neither the Purchaser nor Parent will pay any fees or commissions to any broker or dealer or other persons for soliciting tenders of Shares pursuant to the Offer (other than the fees of the Dealer Manager and the Information Agent). Brokers, dealers, commercial banks and trust companies will be reimbursed by the Purchaser for reasonable expenses incurred by them in forwarding material to their customers.

18. MISCELLANEOUS. The Purchaser is not aware of any jurisdiction in which the making of the Offer is not in compliance with applicable law. If the Purchaser becomes aware of any jurisdiction in which the

making of the Offer would not be in compliance with applicable law, the Purchaser will make a good faith effort to comply with any such law. If, after good faith effort, the Purchaser cannot comply with any such law, the Offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of Shares residing in such jurisdiction. In those jurisdictions where securities or blue sky laws require the Offer to be made by a licensed broker or dealer, the Offer is being made on behalf of the Purchaser by the Dealer Manager or one or more registered brokers or dealers which are licensed under the laws of such jurisdiction.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION ON BEHALF OF THE PURCHASER OR PARENT NOT CONTAINED IN THIS OFFER TO PURCHASE OR IN THE LETTER OF TRANSMITTAL AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

The Purchaser has filed with the Commission the Schedule 14D-1 pursuant to Rule 14d-3 under the Exchange Act, furnishing certain additional information with respect to the Offer, and may file amendments thereto. The Schedule 14D-1 and any amendments thereto, including exhibits, may be inspected and copies may be obtained at the same places and in the same manner as set forth in Section 7 (except they will not be available at the regional offices of the Commission).

ECO ACQUISITION CORPORATION

July 15, 1994

SCHEDULE I

DIRECTORS AND EXECUTIVE OFFICERS OF PARENT

The name, business address, present principal occupation or employment and five-year employment history of each director and executive officer of Parent and certain other information are set forth below. Unless otherwise indicated below, the address of each director and officer is c/o Eli Lilly and Company, Lilly Corporate Center, Indianapolis, Indiana 46285. No information is provided in the right-hand column where the individual has occupied the position indicated in the middle column for the past five years and holds no outside directorships. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to employment with Parent. All directors and officers listed below are citizens of the United States except Sidney Taurel, who is a citizen of Spain. Parenthetical years indicate the year the individual was elected or appointed to the position or office or his or her tenure therein. Directors are identified by a single asterisk.

NAME (AGE AT 3/14/94)	POSITIONS AND OFFICES HELD WITH PARENT	PRINCIPAL OCCUPATION AND BUSINESS EXPERIENCE (PAST FIVE YEARS); OUTSIDE DIRECTORSHIPS
Steven C. Beering, M.D.* (61)	Director (1983)	President, Purdue University c/o Office of the President, Purdue University, 1031 Hovde Hall, West Lafayette, Indiana 47907-1031 (1983); Director of American United Life Insurance Company; Arvin Industries Inc., and NIPSCO Industries, Inc.
James M. Cornelius* (50)	Vice President and Chief Financial Officer (1983); Director (1986)	Director of CompuServe Incorporated
James W. Cozad* (67)	Director (1989)	Retired Chairman of the Board and Chief Executive Officer, Whitman Corporation (1990-1992); Vice Chairman of the Board of Amoco Corporation (1983-1990); Director of GATX Corporation; Inland Steel Industries, Inc.; Sears, Roebuck & Co. and Whitman Corporation
Mitchell E. Daniels, Jr. (44)	President, North American Pharmaceutical Operations, Pharmaceutical Division (1993)	Vice President, Corporate Affairs Division (1990); President and Chief Executive Officer of the Hudson Institute and of counsel to Baker and Daniels (1987-1990); Director of Acordia, Inc., IPALCO Enterprises, Inc., Indianapolis Power and Light Company, and NBD Bank, N.A.
Ronald W. Dollens (47)	President, Medical Devices and Diagnostics Division (1991)	Vice President, Medical Devices and Diagnostics Division (1990); President and Chief Executive Officer of Advanced Cardiovascular Systems, Inc., a subsidiary of Parent (1988)
Michael L. Eagle (46)	Vice President, Manufacturing (1994)	Vice President, Pharmaceutical Manufacturing Operations Division (1993); Vice President, Medical Devices and Diagnostics Division (1991); President and Chief Executive Officer of IVAC Corporation, a subsidiary of Parent (1988)

NAME (AGE AT 3/14/94)	POSITIONS AND OFFICES HELD WITH PARENT	PRINCIPAL OCCUPATION AND BUSINESS EXPERIENCE (PAST FIVE YEARS); OUTSIDE DIRECTORSHIPS
Brendan P. Fox (50)	President, Elanco Animal Health Division (1991)	Vice President, Elanco Animal Health Division (1989); Executive Director, International Animal Health Marketing (1987)
Pedro P. Granadillo (46)	Vice President, Human Resources (1993)	Vice President, Pharmaceutical Manufacturing Division (1992); Executive Director, Production Operations and Manufacturing Strategy Development (1989); Director of Manufacturing Strategy Development (1987)
Karen N. Horn, Ph.D.* (50)	Director (1987)	Chairman of the Board and Chief Executive Officer, Bank One, Cleveland, N.A. c/o Bank One, Cleveland, N.A., 1255 Euclid Avenue, Cleveland, Ohio 44115 (1987); Director of The British Petroleum Company p.l.c., Rubbermaid Incorporated and TRW, Inc.
J.B. King (64)	Vice President and General Counsel (1987)	Director of Indianapolis Water Company and Bank One, Indianapolis, N.A.
J. Clayburn La Force, Jr., Ph.D.* (65)	Director (1981)	Dean Emeritus, John E. Anderson Graduate School of Management, University of California at Los Angeles c/o John E. Anderson Graduate School of Management, University of California at Los Angeles, 405 Hilgard Avenue, Los Angeles, California 90024 (1978-1993); Director of Blackrock Funds; Imperial Credit Industries, Inc., Jacobs Engineering Group, Inc.; Payden and Rygel Fund; Provident Investment Counsel Funds; Rockwell International Corporation; Pacific Corinthian Variable Fund, and The Timken Company
Kenneth L. Lay, Ph.D.* (51)	Director (1993)	Chairman of the Board and Chief Executive Officer, Enron Corporation c/o Enron Corporation, 1400 Smith Street, Houston, Texas 77002-7369 (1986 and 1985, respectively); Director of Compaq Computer Corporation and Trust Company of the West
Ben F. Love* (69)	Director (1989)	Retired Chairman of the Board and Chief Executive Officer, Texas Commerce Bancshares, Inc. (1972-1989); Director of Burlington Northern Inc., Cox Enterprises, Inc., El Paso Natural Gas Company, Mitchell Energy &Development Corp. and Texas Commerce Bancshares, Inc.

NAME (AGE AT 3/14/94)	POSITIONS AND OFFICES HELD WITH PARENT	PRINCIPAL OCCUPATION AND BUSINESS EXPERIENCE (PAST FIVE YEARS); OUTSIDE DIRECTORSHIPS
Stephen A. Stitle* (48)	Vice President, Corporate Affairs (1993); Director (1991)	Vice President, Human Resources (1988-1993); Director of National City Corporation and National City Bank, Indiana
Sidney Taurel* (45)	Executive Vice President and President, Pharmaceutical Division (1993); Director (1991)	Executive Vice President, Pharmaceutical Division (1991-1993); President, Eli Lilly International Corporation (1986-1991)
W. Leigh Thompson, Ph.D., M.D. (55)	Chief Scientific Officer (1993)	Executive Vice President, Lilly Research Laboratories (1992); Group Vice President, Lilly Research Laboratories (1988)
Randall L. Tobias* (51)	Chairman of the Board and Chief Executive Officer (1993); Director (1986)	Vice Chairman of the Board of American Telephone and Telegraph (ATCompany (1986-1993); Chairman and Chief Executive Officer of ATT International (an ATTsubsidiary) (1991-1993); Director of Kimberly-Clark Corporation, Knight-Ridder, Inc. and Phillips Petroleum Company
August M. Watanabe, M.D.* (52)	Vice President and President, Lilly Research Laboratories (1994); Director (1994)	Vice President of Lilly Research Laboratories and Group Vice President of Lilly Research Laboratories (1990-1994); faculty member of the Indiana School of Medicine (1972-1990); Chairman of the Department of Medicine (1983-1990)
Alva O. Way* (64)	Director (1980)	Chairman of the Board, IBJ Schroder Bank &Trust Company c/o IBJ Schroder Bank &Trust Company, One State Street Plaza, New York, New York 10004 (1986); Director of and consultant to Schroder plc, London, and related companies; Director of Gould, Inc., McGraw-Hill, Inc., Ryder System, Inc.
Richard D. Wood* (67)	Retired Chairman of the Board, President and Chief Executive Officer; Director (1971)	Chairman of the Board (April 1973-June 1993); Chief Executive Officer (April 1973-October 1991); Director of Amoco Corporation, Chemical Banking Corporation, The Chubb Corporation, and Dow Jones & Company, Inc.

DIRECTORS AND EXECUTIVE OFFICERS OF THE PURCHASER

The name, business address, present principal occupation or employment and five-year employment history of each director and executive officer of Purchaser and certain other information are set forth below. Unless otherwise indicated below, the address of each director and officer is c/o Eli Lilly and Company, Lilly Corporate Center, Indianapolis, Indiana 46285. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to employment with Parent. Parenthetical years indicate the year the individual was elected or appointed to the position or office. All directors and officers listed below are citizens of the United States.

NAME (AGE AT 3/14/94)	POSITIONS AND OFFICES HELD WITH THE PURCHASER** (YEAR ELECTED)	PRINCIPAL OCCUPATION AND BUSINESS EXPERIENCE (PAST FIVE YEARS)
Charles E. Schalliol (46)	President, Director (1994)	Executive Director, Corporate Business Development (1994), Director of Corporate Business Development (1992), Director of Tax Planning (1988)
Edwin W. Miller (48)	Vice President, Treasurer and Assistant Secretary, Director (1994)	Vice President and Treasurer (1993), Executive Director of Finance (1992), Controller of Financial Operations and Chief Accounting Officer (1991), Director of Business Development, Medical Device and Diagnostics Division (1988)
Daniel P. Carmichael (52)	Vice President, Secretary and Assistant Treasurer, Director (1994)	Secretary and Deputy General Counsel (1989), Deputy General Counsel (1985)

AGREEMENT AND PLAN OF MERGER

DATED AS OF JULY 10, 1994

BY AND AMONG

MCKESSON CORPORATION,

ELI LILLY AND COMPANY

AND

ECO ACQUISITION CORPORATION

TABLE OF CONTENTS

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of July 10, 1994, among McKesson Corporation, a Delaware corporation (the "Company"), Eli Lilly and Company, an Indiana corporation ("Parent"), and ECO Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Parent (the "Purchaser").

WHEREAS, the Boards of Directors of the Company, Parent and the Purchaser deem it advisable and in the best interests of their respective stockholders that Parent acquire certain businesses of the Company pursuant to the terms and conditions set forth in this Agreement;

WHEREAS, as provided herein, and in the Distribution Agreement (as defined below), the Company will transfer certain businesses to SP Ventures, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("Spinco"), and distribute to the Company's stockholders (the "Spin-Off") all of the issued and outstanding shares of common stock, par value $.01 per share, of Spinco; and

WHEREAS, as set forth in Section 6.10 hereof, as a condition to and in consideration of the transactions contemplated hereby, the Company, Spinco and certain other parties are entering or will enter into (a) a Reorganization and Distribution Agreement dated as of the date hereof (the "Distribution Agreement"), (b) a Tax Sharing Agreement in the form attached hereto as Exhibit A (the "Tax Sharing Agreement"), and (c) a HDS Services Agreement, among Parent, PCS Health Systems, Inc., a Delaware corporation ("PCS"), and Healthcare Delivery Systems, Inc., a Delaware corporation ("HDS"), in the form attached hereto as Exhibit B, a McKesson Services Agreement, between PCS and Spinco, in the form attached hereto as Exhibit C, a Memorandum of Understanding between Parent and Spinco, in the form attached hereto as Exhibit D (the "Memorandum of Understanding"), and a Non-Competition Agreement between Parent and Spinco, in the form attached hereto as Exhibit E (the agreements referred to in this paragraph (c), hereafter collectively referred to as the "Additional Agreements" and, together with the Distribution Agreement and the Tax Sharing Agreement, hereafter collectively referred to as the "Ancillary Agreements");

NOW, THEREFORE, in consideration of the foregoing and the Ancillary Agreements and the respective representations, warranties, covenants and agreements set forth herein and therein, the parties hereto agree as follows:

ARTICLE I

THE OFFER

Section 1.1. The Offer. (a) Subject to this Agreement not having been terminated in accordance with the provisions of Section 8.1 hereof, the Purchaser shall, and Parent shall cause Purchaser to, as promptly as practicable, but in no event later than five business days from the date of the public announcement of the terms of this Agreement, commence an offer to purchase for cash (the "Offer") any and all of the Company's outstanding shares of common stock, par value $2.00 per share (the "Shares"), and all preferred stock purchase rights associated therewith, subject to the conditions set forth in Exhibit F attached hereto, at a price of not less than $76.00 per Share, net to the seller in cash. The Purchaser shall, and Parent shall cause the Purchaser to, (i) subject only to the conditions set forth in Exhibit F hereto, accept for payment and pay for all Shares tendered pursuant to the terms of the Offer as promptly as practicable following the record date (the "Record Date") of the Spin-Off, and (ii) subject only to the conditions set forth in paragraphs (ii)(a) through (g) of Exhibit F hereto, extend the period of time the Offer is open until the first business day following the Record Date. Subject to the provisions set forth herein and in Article III of the Distribution Agreement, including, without limitation, Section 3.2 thereof, the Company's Board of Directors shall establish such Record Date and the Distribution Date (as defined in the Distribution Agreement) at the earliest reasonably practicable dates. Parent will not, nor will it permit any of its affiliates to, tender into the Offer any Shares beneficially owned by it, nor, subject to the preceding sentence of this Section 1.1, will Parent

or Purchaser extend the expiration date of the Offer beyond the twentieth business day following commencement thereof without the prior written consent of the Company unless one or more of the conditions set forth in Exhibit F hereto shall not be satisfied or unless Parent reasonably determines, with the prior approval of the Company (such approval not to be unreasonably withheld or delayed) that such extension is necessary to comply with any legal or regulatory requirements relating to the Offer. The Purchaser expressly reserves the right to amend the terms or conditions of the Offer, provided that no amendment may be made which changes the form of consideration to be paid or decreases the price per Share or the number of Shares sought in the Offer or which imposes conditions to the Offer in addition to those set forth in Exhibit F hereto or broadens the scope of such conditions, and no other amendment may be made in the terms or conditions of the Offer which is adverse to the holders of Shares. The Company agrees that no Shares held by the Company or any subsidiary of the Company will be tendered pursuant to the Offer. Notwithstanding anything to the contrary contained in this Agreement, Parent and the Purchaser shall not be required to commence the Offer in any foreign country where the commencement of the Offer, in Parent's reasonable opinion, would violate the applicable law of such jurisdiction.

(b) On the date of the commencement of the Offer, the Purchaser shall file with the Securities and Exchange Commission (the "SEC") a Tender Offer Statement on Schedule 14D-1 with respect to the Offer which will contain an offer to purchase and form of the related letter of transmittal (together with any supplements or amendments thereto, the "Offer Documents"). The Company and its counsel shall be given a reasonable opportunity to review and comment on the Offer Documents prior to the filing of such Offer Documents with the SEC. The Purchaser agrees to provide the Company and its counsel in writing with any comments the Purchaser and its counsel may receive from the SEC or its staff with respect to the Offer Documents promptly after the receipt thereof.

Section 1.2. Company Actions. (a) The Company hereby consents to the Offer and represents that its Board of Directors (at a meeting duly called and held) has unanimously (i) determined as of the date hereof that the Offer, the Merger (as hereafter defined) and the Spin-Off are fair to the stockholders of the Company and are in the best interests of the stockholders of the Company and (ii) resolved to recommend acceptance of the Offer and approval and adoption of this Agreement by the stockholders of the Company. The Company further represents that Morgan Stanley & Co. Incorporated has delivered to the Board of Directors of the Company its opinion that, taken together, the Spin-Off and the consideration to be received by the holders of Shares in the Offer and the Merger are fair from a financial point of view to such holders. The Company hereby agrees to file a Solicitation/Recommendation Statement on Schedule 14D-9 (the "Schedule 14D-9") containing such recommendations with the SEC (and the information required by Section 14(f) of the Exchange Act if Parent shall have furnished such information to the Company in a timely manner) and to mail such Schedule 14D-9 to the stockholders of the Company no later than 10 business days following the commencement of the Offer. The Company agrees to provide Parent and its counsel in writing with any comments the Company may receive from the SEC or its staff with respect to such Schedule 14D-9 promptly after receipt thereof.

(b) The Company will, within ten days following announcement of the Offer, amend the Rights Agreement, dated as of May 7, 1986 (the "Rights Agreement"), between the Company and Shareholder Services Trust Company (presently First Chicago Trust Company of New York), as amended and restated, as necessary (i) to prevent this Agreement or the consummation of any of the transactions contemplated hereby or by the Distribution Agreement, including without limitation, the publication or other announcement of the Offer and the consummation of the Offer and the Merger, from resulting in the distribution of separate rights certificates or the occurrence of a Distribution Date (as defined therein) or being deemed to be a Triggering Event (as defined therein) or a Section 13 Event (as defined therein) and (ii) to provide that neither Parent nor the Purchaser shall be deemed to be an Acquiring Person (as defined in the Rights Agreement) or be declared an Adverse Person (as defined in the Rights Agreement) by reason of the transactions expressly provided for in this Agreement.

Section 1.3. Stockholder Lists. In connection with the Offer, the Company will promptly furnish the Purchaser with mailing labels, security position listings and any available listing or computer file containing the names and addresses of the record holders of the Shares as of a recent date and shall furnish the Purchaser with such information and assistance as the Purchaser or its agents may reasonably request in communicating the Offer to the record and beneficial holders of Shares.

Section 1.4. Composition of the Board of Directors. In the event that the Purchaser acquires at least a majority of the Shares outstanding on a fully diluted basis pursuant to the Offer, Parent shall be entitled to designate for appointment or election to the Company's Board of Directors, upon written notice to the Company, such number of persons so that the designees of the Parent constitute a majority of the Company's Board of Directors. Prior to consummation of the Offer, the Board of Directors of the Company will either adopt an amendment to the Company's By-Laws to provide in effect that upon the request of Parent following the acquisition by the Purchaser of a majority of the Shares outstanding on a fully diluted basis pursuant to the Offer, the number of members of the Company's Board of Directors shall be increased to the extent necessary to provide the persons designated by Parent pursuant to this Section 1.4 with a majority of the positions on the Board of Directors, or will obtain the resignation of such number of directors as is necessary to enable such number of Parent designees to be so elected. In connection therewith, the Company will mail to the stockholders of the Company the information required by Section 14(f) of the Exchange Act and Rule 14f-1 thereunder unless such information has previously been provided to such stockholders in the Schedule 14D-9. Parent and the Purchaser will provide to the Company in writing, and be solely responsible for, any information with respect to such companies and their nominees, officers, directors and affiliates required by such Section and Rule. Notwithstanding the provisions of this Section 1.4, the parties hereto shall use their respective best efforts to ensure that at least three of the members of the Company's Board of Directors shall, at all times prior to the Effective Time (as defined in Section 2.2 hereof) be, Continuing Directors (as defined in Section 8.4 hereof).

ARTICLE II

THE MERGER

Section 2.1. The Merger. Upon the terms and subject to the conditions hereof, and in accordance with the Delaware General Corporation Law (the "DGCL"), the Purchaser shall be merged (the "Merger") with and into the Company as soon as practicable following the satisfaction or waiver of the conditions set forth in Article VII hereof or on such other date as the parties hereto may agree (such agreement to require the approval of a majority of the Continuing Directors if at the time there shall be any Continuing Directors). Following the Merger the Company shall continue as the surviving corporation (the "Surviving Corporation") and the separate corporate existence of the Purchaser shall cease.

Section 2.2. Effective Time. The Merger shall be consummated by filing with the Delaware Secretary of State a certificate of merger or, if applicable, a certificate of ownership and merger, executed in accordance with the relevant provisions of the DGCL (the time the Merger becomes effective being the "Effective Time").

Section 2.3. Effects of the Merger. The Merger shall have the effects set forth in the DGCL. As of the Effective Time the Company shall be a wholly-owned subsidiary of Parent.

Section 2.4. Certificate of Incorporation and By-Laws. The Certificate of Incorporation and By-Laws of the Purchaser as in effect at the Effective Time shall be the Certificate of Incorporation and By-Laws of the Surviving Corporation, provided that Article First of the Certificate of Incorporation of the Surviving Corporation shall be amended to read in its entirety as follows: "FIRST: The name of the Corporation is PCS Holding Corporation."

Section 2.5. Directors. The directors of the Purchaser at the Effective Time shall be the initial directors of the Surviving Corporation and will hold office from the Effective Time until their respective

successors are duly elected or appointed and qualify in the manner provided in the Certificate of Incorporation and By-Laws of the Surviving Corporation, or as otherwise provided by law.

Section 2.6. Officers. The officers of the Purchaser at the Effective Time shall be the initial officers of the Surviving Corporation and will hold office from the Effective Time until their respective successors are duly elected or appointed and qualify in the manner provided in the Certificate of Incorporation and By-Laws of the Surviving Corporation, or as otherwise provided by law.

Section 2.7. Conversion of Shares. (a) At the Effective Time:

(i) Each Share issued and outstanding immediately prior to the Effective Time (other than Shares held by Parent or any subsidiary of Parent, Shares held in the treasury of the Company or held by any subsidiary of the Company (other than a Retained Subsidiary), and other than Dissenting Shares (as hereafter defined)), including, without limitation, shares of restricted stock issued to employees and former employees of the Company and its subsidiaries (such restricted stock held by employees who, in connection with the Spin-Off, become employees of Spinco shall remain outstanding until converted pursuant to this Section 2.7), shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive $76.00 in cash, or any higher price paid per Share in the Offer (the "Merger Price"), payable to the holder thereof, without interest thereon, upon the surrender of the certificate formerly representing such Share (except as provided in Section 2.10(c) hereof).

(ii) Each Share held in the treasury of the Company or held by any subsidiary of the Company (other than a Retained Subsidiary) and each Share held by Parent or any subsidiary of Parent immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be cancelled and retired and cease to exist.

(b) Each Share held by any Retained Subsidiary shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into and exchangeable for a number of fully paid and nonassessable shares of common stock of the Surviving Corporation equal to the same percentage of the total number of issued and outstanding shares of Surviving Corporation common stock immediately following the Effective Time as the Shares owned by such Retained Subsidiary bore to the total number of issued and outstanding Shares immediately prior to the Effective Time.

Section 2.8. Convertible Securities.

(a) The Company shall give notice to all holders of the Series A Convertible Preferred Stock (as defined in Section 4.2 hereof) that, on a date, as designated by the Company, prior to the Effective Time (the "Redemption Date"), all shares of Series A Convertible Preferred Stock will be called for redemption, in accordance with Article Four, I. 4 of the Company's Restated Certificate of Incorporation, at the price provided for therein.

(b) The shares of Series B ESOP Preferred Stock (as defined in Section 4.2 hereof) issued and outstanding immediately prior to the Effective Time shall, pursuant to the Certificate of Designation, Preferences and Rights of such Series B ESOP Preferred Stock (the "Certificate"), by virtue of the Merger and without any action on the part of the holder thereof, be converted into the right to receive the amount of cash that would have been receivable by a holder of the aggregate number of Shares into which such shares of Series B ESOP Preferred Stock could have been converted immediately prior to the Effective Time (taking into account for this purpose the adjustment to the conversion price of such shares of Series B ESOP Preferred Stock required by the Certificate to reflect the Spin-Off). The Company shall use its best efforts to enter into an agreement with the trustee (the "Trustee") of the PSIP (as defined in Section 6.9(c) hereof) pursuant to which the Trustee would cause all shares of Series B ESOP Preferred Stock held by the PSIP to convert into Shares on or prior to the Record Date (as such term is defined in the Distribution Agreement); provided that in using such best efforts, the Company shall not be obligated to take any actions which would be adverse to the Company or pay any amounts in connection with seeking such agreement.

Section 2.9. Conversion of the Purchaser's Common Stock. Each share of common stock, par value $.01 per share, of the Purchaser issued and outstanding immediately prior to the Effective Time shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into and exchangeable for one share of common stock of the Surviving Corporation.

Section 2.10. Stock Options and Stock Awards. (a) (i) Exercisable Options. All options to acquire Shares ("Stock Options") which are outstanding and exercisable immediately prior to the Effective Time and which are held by any employee or former employee or director or former director of the Company or any of its subsidiaries, after taking into account the adjustments and conversions to such Stock Options and the other matters set forth in Section 8.2(c) of the Distribution Agreement, shall be cancelled as of the Effective Time and the holder thereof shall be entitled to receive from the Company at the Effective Time, for each Share subject to such Stock Option, an amount in cash equal to the difference between the Merger Price and the exercise price per share of such Stock Option, less all applicable withholding taxes.

(ii) Non-Exercisable Options. All Stock Options which are outstanding but not exercisable immediately prior to the Effective Time and which are held by any Retained Employee (as defined in Section 6.9 hereof), after taking into account the adjustments and conversions to such Stock Options and the other matters set forth in Section 8.2(c) of the Distribution Agreement, shall, pursuant to the equitable adjustment provisions of the applicable Company stock option plan under which such Stock Options were granted, be cancelled as of the Effective Time in exchange for the issuance by Parent, within ten days after the Effective Time, to such Retained Employee of that number of shares of common stock of Parent ("Parent Common Stock"), rounded up or down to the nearest whole share, equal to the quotient obtained by dividing (A) the product of (1) the difference between the Merger Price and the exercise price per share of such Stock Options held by such Retained Employee and (2) the number of Shares subject to such Stock Options, by (B) the average of the high and low prices per share of Parent Common Stock on the New York Stock Exchange (the "Parent Stock Price") on the date of consummation of the Merger. The shares of Parent Common Stock so issued shall be subject to restrictions on transfer during the restricted period set forth below, and any shares of Parent Common Stock then subject to such restrictions shall be forfeited in the event such Retained Employee voluntarily terminates his or her employment with the Surviving Corporation or the Parent (or any affiliate thereof) during such restricted period, other than any termination on the basis of "good reason" (as used in the various executive severance agreements currently in effect with executives of the Company). The restricted period shall commence as of the Effective Time and shall terminate on the third anniversary thereof; provided, that restrictions on one-third of the shares of Parent Common Stock so issued shall lapse on each of the first and second anniversaries of the Effective Time (unless the Company and any holder of such shares otherwise mutually agree); and further provided, that all such restrictions shall lapse in the event of the Retained Employee's death, disability, retirement, involuntary termination of employment or voluntary termination of employment for good reason (as defined above) during the restricted period. During the restricted period, each such Retained Employee shall otherwise be entitled to all of the rights of a shareholder of Parent, including the right to vote such shares of Parent Common Stock and the right to receive dividends thereon. If on the date that the restrictions lapse on any shares of Parent Common Stock issued to a Retained Employee hereunder, the Parent Stock Price is less than the Parent Stock Price on the date of consummation of the Merger, Parent shall pay or shall cause the Surviving Corporation to pay to such Retained Employee (or to such Retained Employee's estate or beneficiary, if applicable), within ten days after such restrictions lapse, in cash or, at Parent's option, in additional shares of Parent Common Stock (valued based on the Parent Stock Price on the date such restrictions lapse), an additional amount, less all applicable withholding taxes, such that the sum of (A) the value (as of such date) of the shares of Parent Common Stock the restrictions on which lapse on such date plus (B) the value (as of such date) of the payment made pursuant to this sentence shall be equal to the product of (1) the number of shares of Parent Common Stock the restrictions on which lapse on such date and (2) the Parent Stock Price on the date of consummation of the Merger.

(b) The Company shall use its best efforts to ensure that neither the Company nor any of its subsidiaries is or will be bound by any options, warrants, rights or agreements which would entitle any person, other than Parent, the Company or their subsidiaries, to beneficially own, or receive any payments in respect of, any capital stock of the Company or the Surviving Corporation (other than as provided in this Agreement or in the Ancillary Agreements).

(c)(i) Pursuant to the equitable adjustment provisions of the Company's 1988 Restricted Stock Plan, as amended (the "1988 Plan"), cash otherwise payable hereunder in respect of Shares granted to a Spinco Employee (as defined in the Distribution Agreement) under the 1988 Plan, with respect to which the restrictions have not lapsed as of the Effective Time shall be transferred by the Company to, and retained by, Spinco and shall be payable to such Spinco Employee, subject to the conditions otherwise applicable with respect to the lapsing of restrictions on such Shares, at such time or times when such restrictions would otherwise have lapsed, together with interest thereon from the Effective Time through the date of payment at the rate in effect from time to time under the Company's Deferred Compensation Administration Plan II (DCAP II) (or any successor plan thereto); provided, however, that each such Spinco Employee shall have the right to elect to defer receipt of any amount otherwise payable after December 31, 1995, under such terms and conditions as Spinco may provide.

(ii) Pursuant to the equitable adjustment provisions of the 1988 Plan, Shares granted to Retained Employees under the 1988 Plan with respect to which the restrictions have not lapsed as of the Offer Purchase Date (as defined in the Distribution Agreement) shall be returned to the Company on the day following the Offer Purchase Date, and restricted shares of Spinco Common Stock (as defined in the Distribution Agreement) issued to Retained Employees in the Spin-Off under the Spinco Stock Plan (as defined in the Distribution Agreement) in respect of such Shares shall be returned to Spinco on such day. In consideration of the actions described in the preceding sentence, Parent shall issue to each such Retained Employee, within ten days after the Effective Time, a number of shares of Parent Common Stock, rounded up or down to the nearest whole share, equal to the quotient obtained by dividing (A) the sum of (1) the amount of cash which would have been payable to such Retained Employee hereunder in respect of such Shares had such Shares been outstanding immediately prior to the Effective Time (the "Cash Consideration") plus (2) the product of (x) the number of shares of Spinco Common Stock issued to such Retained Employee in the Spin-Off in respect of such Shares (the "Spinco Restricted Shares") and (y) the Spinco Value (as defined in the Distribution Agreement), by (B) the Parent Stock Price on the date of consummation of the Merger. Notwithstanding the foregoing, in the case of any Retained Employee who is, with respect to the Company, subject to the reporting requirements of Section 16 of the Exchange Act, the Spinco Restricted Shares described herein shall not be returned to Spinco on the day following the Offer Purchase Date (but shall remain outstanding for a period of six months and a day thereafter (the "Post-Offer Period"), at which time such Spinco Restricted Shares shall be returned to Spinco), and Parent shall issue to each such Retained Employee (A) within ten days after the Effective Time, a number of whole shares of Parent Common Stock, rounded up or down to the nearest whole share, equal to the quotient obtained by dividing (1) the Cash Consideration by (2) the Parent Stock Price on the date of consummation of the Merger, and (B) within ten days after the end of the Post-Offer Period, a number of whole shares of Parent Common Stock, rounded up or down to the nearest whole share, equal to the quotient obtained by dividing (3) the product of (x) the Spinco Restricted Shares of such Retained Employee and (y) the average of the high and low prices of Spinco Common Stock on the last day of the Post-Offer Period, by (4) the Parent Stock Price on the last day of the Post-Offer Period. The shares of Parent Common Stock issued hereunder shall be subject to the same terms and conditions as the shares of Parent Common Stock issued to Retained Employees pursuant to Section 2.10(a)(ii) hereof.

Section 2.11. Stockholders' Meeting. If required by applicable law in order to consummate the Merger, the Company, acting through its Board of Directors, shall, in accordance with applicable law, its Restated Certificate of Incorporation and By-Laws and the rules and regulations of the New York Stock Exchange:

(a) duly call, give notice of, convene and hold a special meeting of its stockholders as soon as practicable following the consummation of the Offer for the purpose of considering and taking action upon this Agreement;

(b) subject to its fiduciary duties under applicable laws as advised by counsel, include in the Proxy Statement (as defined in Section 5.4 hereof) the recommendation of its Board of Directors referred to in Section 1.2 hereof; and

(c) use its best efforts to (i) obtain and furnish the information required to be included by it in the Proxy Statement, and, after consultation with Parent, respond promptly to any comments made by the SEC with respect to the Proxy Statement and any preliminary version thereof and cause the Proxy Statement to be mailed to its stockholders following the consummation of the Offer and (ii) obtain the necessary approvals of this Agreement by its stockholders.

Parent will provide the Company with the information concerning Parent and the Purchaser required to be included in the Proxy Statement and will vote, or cause to be voted, all Shares owned by it or its subsidiaries in favor of approval and adoption of this Agreement.

Section 2.12. Filing of Certificate of Merger. Upon the terms and subject to the conditions hereof, as soon as practicable following the satisfaction or waiver of the conditions set forth in Article VII hereof, the Company shall execute and file a certificate of merger or, if applicable, a certificate of ownership and merger, in the manner required by the DGCL and the parties hereto shall take all such other and further actions as may be required by law to make the Merger effective. Prior to the filings referred to in this Section 2.12, a closing will be held at the offices of Skadden, Arps, Slate, Meagher & Flom, 919 Third Avenue, New York, New York (or such other place as the parties may agree), for the purpose of confirming all of the foregoing.

Section 2.13. Spinco Cash Payment. The Purchaser shall, and Parent shall cause the Purchaser to, contribute to the Company, simultaneously with the consummation of the Offer (except that the amount referred to in paragraph (a)(ii) below shall be contributed by the Purchaser to the Company immediately prior to the Effective Time and immediately transferred to Spinco by the Company as an adjustment to the Company Assets being transferred to Spinco), a cash amount (the "Spinco Cash Amount") in immediately available funds equal to (a) the sum of (i) $4,000,000,000, plus (ii) an amount equal to the aggregate exercise price received by the Company by reason of the exercise of any outstanding Stock Options following the consummation of the Offer but prior to the Effective Time, plus (iii) the amount of cash, if any, paid to the Company from the sale by the Company of the capital stock of Spinco pursuant to Section 2.5 of the Distribution Agreement and not otherwise transferred to Spinco pursuant to Article II of the Distribution Agreement (provided that in no event shall the amount referred to in this clause (iii) exceed $10,000,000), minus (b) the sum of (i) the amount paid or payable in the Offer and the Merger with respect to the Shares and the shares of Series B ESOP Preferred Stock (as defined in Section 4.2 hereof), (ii) the amount paid or payable with respect to Section 2.10(a)(i) hereof and (iii) in the event that the Series A Convertible Preferred Stock is not redeemed on or prior to the Offer Purchase Date, the amount payable by the Company with respect to the redemption thereof. In the event that any cash amount with respect to the matter set forth in clause (a)(iii) above is received by the Company after the consummation of the Offer, the Company shall transfer to Spinco such amount promptly following receipt thereof. Such Spinco Cash Amount shall constitute part of the Company Assets to be transferred to Spinco pursuant to the Distribution Agreement.

ARTICLE III

DISSENTING SHARES; EXCHANGE OF SHARES

Section 3.1. Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, Shares which are issued and outstanding immediately prior to the Effective Time and which are held by stockholders who have not voted such Shares in favor of the Merger and shall have delivered a written demand for appraisal of such Shares in the manner provided in the DGCL (the "Dissenting Shares") shall not be

converted into or be exchangeable for the right to receive the consideration provided in Section 2.7 of this Agreement, unless and until such holder shall have failed to perfect or shall have effectively withdrawn or lost such holder's right to appraisal and payment under the DGCL. If such holder shall have so failed to perfect or shall have effectively withdrawn or lost such right, such holder's Shares shall thereupon be deemed to have been converted into and to have become exchangeable for, at the Effective Time, the right to receive the consideration provided for in Section 2.7(a) of this Agreement, without any interest thereon.

Section 3.2. Exchange of Shares. (a) Prior to the Effective Time, Parent shall designate a bank or trust company to act as exchange agent in the Merger (the "Exchange Agent"). Immediately prior to the Effective Time, Parent will take all steps necessary to enable and cause the Company to deposit with the Exchange Agent the funds necessary to make the payments contemplated by Section 2.7 on a timely basis.

(b) Promptly after the Effective Time, the Exchange Agent shall mail to each record holder, as of the Effective Time, of an outstanding certificate or certificates which immediately prior to the Effective Time represented Shares (the "Certificates") a form letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent) and instructions for use in effecting the surrender of the Certificates for payment therefor. Upon surrender to the Exchange Agent of a Certificate, together with such letter of transmittal duly executed, and any other required documents, the holder of such Certificate shall be entitled to receive in exchange therefor the consideration set forth in Section 2.7(a) hereof, and such Certificate shall forthwith be cancelled. No interest will be paid or accrued on the cash payable upon the surrender of the Certificates. If payment is to be made to a person other than the person in whose name the Certificate surrendered is registered, it shall be a condition of payment that the Certificate so surrendered shall be properly endorsed or otherwise in proper form for transfer and that the person requesting such payment shall pay any transfer or other taxes required by reason of the payment to a person other than the registered holder of the Certificate surrendered or establish to the satisfaction of the Surviving Corporation that such tax has been paid or is not applicable. Until surrendered in accordance with the provisions of this Section 3.2, each Certificate (other than Certificates representing Shares held by Parent or any subsidiary of Parent, Shares held in the treasury of the Company or held by any subsidiary of the Company and Dissenting Shares) shall represent for all purposes only the right to receive the consideration set forth in Section 2.7(a) hereof, without any interest thereon.

(c) After the Effective Time there shall be no transfers on the stock transfer books of the Surviving Corporation of the Shares which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation, they shall be cancelled and exchanged for the consideration provided in Article II hereof in accordance with the procedures set forth in this Article III.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and the Purchaser as follows:

Section 4.1. Organization. Each of the Company and its subsidiaries that will be owned, directly or indirectly, by the Company following the Spin-Off (the "Retained Subsidiaries") is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except in the case of subsidiaries which are not Retained Subsidiaries where the failure to be so existing and in good standing or to have such power and authority would not in the aggregate have a Material Adverse Effect (as defined below). For purposes of this Agreement, (a) the term "Material Adverse Effect" shall mean a material adverse effect on the business, results of operations or financial condition of the businesses that will be retained by the Company and the Retained Subsidiaries

following the Spin-Off taken as a whole, and (b) the term "Retained Business" shall mean such businesses to be retained by the Company and the Retained Subsidiaries following the Spin-Off. Each of the Company and the Retained Subsidiaries is duly qualified or licensed and in good standing to do business in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except in such jurisdictions where the failure to be so duly qualified or licensed and in good standing would not in the aggregate have a Material Adverse Effect. The Company has heretofore delivered or made available to Parent accurate and complete copies of the Certificate of Incorporation and By-Laws (or other similar organizational documents in the event of any entity other than a corporation), as currently in effect of the Company and each of the Retained Subsidiaries.

Section 4.2. Capitalization. As of July 1, 1994, the authorized capital stock of the Company consisted of (a) 120,000,000 Shares, of which 40,716,310 Shares were issued and outstanding, (b) 6,000,000 shares of Cumulative Preferred Stock, par value $35.00 per share ("Cumulative Preferred Stock"), of which 244,034 shares were designated as Cumulative Preferred Stock, Series A (Convertible) ("Series A Convertible Preferred Stock"), of which 128,575 shares were issued and outstanding, and (c) 10,000,000 shares of Series Preferred Stock, par value $1.00 per share ("Series Preferred Stock"), of which (i) 600,000 shares were designated as Series A Junior Participating Preferred Stock of which no shares were issued and outstanding, and (ii) 3,000,000 shares were designated as Series B ESOP Convertible Preferred Stock ("Series B ESOP Preferred Stock"), of which 2,737,633 were issued and outstanding. All of the issued and outstanding Shares, Cumulative Preferred Stock and Series Preferred Stock are validly issued, fully paid and non-assessable and free of preemptive rights. As of July 1, 1994, 3,111,751 Shares were issuable upon the exercise of outstanding vested and non-vested Employee Options. Since July 1, 1994, the Company has not issued any shares of its capital stock except upon exercise of Employee Options or the conversion of Series A Convertible Preferred Stock or Series B ESOP Preferred Stock. Except as set forth above and as otherwise provided for in this Agreement, there are not now, and at the Effective Time there will not be, any shares of capital stock of the Company issued or outstanding or any subscriptions, options, warrants, calls, rights, convertible securities or other agreements or commitments of any character obligating the Company to issue, transfer or sell any of its securities other than Shares issuable upon conversion of the Series A Convertible Cumulative Preferred Stock or the Series B ESOP Preferred Stock and other than the Rights (as defined in the Rights Agreement). Except as permitted by this Agreement, following the Merger, the Company will have no obligation to issue, transfer or sell any shares of its capital stock pursuant to any employee benefit plan or otherwise. All of the outstanding shares of capital stock of each of the Retained Subsidiaries have been validly issued and are fully paid and non-assessable and are owned by either the Company or another of the Retained Subsidiaries free and clear of all liens, charges, claims or encumbrances. There are not now, and at the Effective Time there will not be, any outstanding subscriptions, options, warrants, calls, rights, convertible securities or other agreements or commitments of any character relating to the issued or unissued capital stock or other securities of any of the Retained Subsidiaries, or otherwise obligating the Company or any such subsidiary to issue, transfer or sell any such securities. There are not now, and at the Effective Time there will not be, any voting trusts or other agreements or understandings to which the Company or any of the Retained Subsidiaries is a party or is bound with respect to the voting of the capital stock of the Company or any of the Retained Subsidiaries.

Section 4.3. Authority Relative to this Agreement. Each of the Company and each Company subsidiary which is a party to any of the Ancillary Agreements (each such subsidiary, a "Contracting Subsidiary") has full corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements and to consummate the transactions contemplated hereby and thereby (but only to the extent it is a party thereto). The execution and delivery of this Agreement by the Company and of the Ancillary Agreements by the Company and each Contracting Subsidiary (to the extent it is a party thereto) and the consummation of the transactions contemplated hereby and thereby have been, or with respect to Contracting Subsidiaries will be prior to the Record Date, duly and validly authorized by the Boards of Directors of the Company and each Contracting Subsidiary (to the extent it is a party thereto) and no other corporate proceedings on the part of the Company or each Contracting Subsidiary (to the extent it is a party thereto),

including, without limitation, any approval by the stockholders of the Company, are, or with respect to Contracting Subsidiaries will be prior to the Record Date, necessary to authorize this Agreement or the Ancillary Agreements or to consummate the transactions contemplated hereby or thereby (other than (a) with respect to the Merger, the approval and adoption of this Agreement by the holders, including Parent and its affiliates, of the requisite number of the outstanding Shares, (b) actions with respect to increasing the size of the Company's Board of Directors to enable designees of Parent to be elected or appointed as provided in Section 1.4 hereof and (c) actions to be taken by the Boards of Directors of the Company and certain Contracting Subsidiaries specified therein in connection with the matters contemplated by the Distribution Agreement, which actions described in clause (c) above will be (subject to Section 3.2 of the Distribution Agreement) duly and validly taken prior to any purchase of Shares pursuant to the Offer). This Agreement has been, and each of the Ancillary Agreements have been or will prior to the Record Date be, duly and validly executed and delivered by the Company and each Contracting Subsidiary (to the extent it is a party thereto) and (except for the Memorandum of Understanding) constitute or (to the extent such agreement is not being entered into as of the date hereof) will constitute a valid and binding agreement of the Company and each Contracting Subsidiary (to the extent it is a party thereto), enforceable against the Company and each Contracting Subsidiary (to the extent it is a party thereto) in accordance with its terms, except to the extent that enforcement thereof may be limited by (a) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws, now or hereafter in effect, relating to creditors' rights generally and (b) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity). The affirmative vote of the holders of a majority of the Shares is the only vote of the holders of any class or series of Company capital stock necessary to approve the Merger. Neither the Offer, the Merger or the Spin-Off, individually or taken together, is a transaction that constitutes a change in control under any of the Company's stock option or restricted stock plans or any other benefit plan in which any Retained Employee participates.

Section 4.4. Consents and Approvals; No Violations. Except for any applicable requirements of the Securities Exchange Act of 1934, as amended, and all rules and regulations thereunder (the "Exchange Act"), the Securities Act of 1933 and all rules and regulations thereunder (the "Securities Act"), and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), the filing and recordation of a certificate of merger, or a certificate of ownership and merger, as required by the DGCL, such filings and approvals as may be required under the "takeover" or "blue sky" laws of various states, and as disclosed in Section 4.4 of the disclosure schedule delivered by the Company to Parent on or prior to the date hereof (the "Disclosure Schedule") or as contemplated by this Agreement and the Ancillary Agreements, neither the execution and delivery of this Agreement or the Ancillary Agreements by the Company or any Contracting Subsidiary (to the extent it is a party thereto) nor the consummation by the Company or any Contracting Subsidiary (to the extent it is a party thereto) of the transactions contemplated hereby or thereby will (i) conflict with or result in any breach of any provision of the certificate of incorporation or By-Laws of the Company or any Contracting Subsidiary, (ii) require on the part of the Company or any Contracting Subsidiary any filing with, or the obtaining of any permit, authorization, consent or approval of, any governmental or regulatory authority or any third party, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation, acceleration or payment, or to the creation of a lien or encumbrance) under any of the terms, conditions or provisions of any note, mortgage, indenture, other evidence of indebtedness, guarantee, license, agreement or other contract, instrument or obligation to which the Company, any Contracting Subsidiary or any of their respective subsidiaries is a party or by which any of them or any of their properties or assets may be bound or (iv) as of the date hereof, violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company or any Contracting Subsidiary, any of their respective subsidiaries or any of their properties or assets, except for such requirements, defaults, rights or violations under clauses (ii), (iii) and (iv) above (x) which would not in the aggregate have a Material Adverse Effect and would not have a material adverse effect on the ability of the Company or any Contracting Subsidiary to consummate the transactions contemplated by this Agreement, or (y) which become applicable as a result of the business or activities in which Parent or the Purchaser is or proposes to be engaged (other than the

business or activities of the Retained Business to be acquired by the Purchaser, considered independently of the ownership thereof by Parent and the Purchaser) or as a result of other facts or circumstances specific to Parent or the Purchaser.

Section 4.5. Absence of Certain Changes. Except (a) as set forth in Section 4.5 of the Disclosure Schedule, (b) as set forth in the Company's Annual Report on Form 10-K for the year ended March 31, 1994 (the "Form 10-K") or any other document filed prior to the date hereof pursuant to Section 13(a) or 15(d) of the Exchange Act, or (c) as contemplated by this Agreement or any of the Ancillary Agreements, from April 1, 1994 until the date hereof, neither the Company nor any of its subsidiaries has taken any of the prohibited actions set forth in Section 6.1 hereof or suffered any changes that, either individually or in the aggregate, would result in a Material Adverse Effect or conducted its business or operations in any material respect other than in the ordinary and usual course of business, consistent with past practices.

Section 4.6. No Undisclosed Liabilities. Except (a) for liabilities and obligations incurred in the ordinary and usual course of business consistent with past practice since April 1, 1994, (b) for liabilities and obligations incurred in connection with the Offer, the Merger and the Spin-Off and (c) as set forth in Section 4.6 of the Disclosure Schedule, from April 1, 1994 until the date hereof neither the Company nor any of its subsidiaries has incurred any liabilities or obligations that, individually or in the aggregate, would have a Material Adverse Effect and that would be required to be reflected or reserved against in a consolidated balance sheet of the Company and its subsidiaries prepared in accordance with generally accepted accounting principles as applied in preparing the consolidated balance sheet of the Company and its subsidiaries as of March 31, 1994 contained in the Form 10-K.

Section 4.7. Reports. (a) The Company has filed all reports, forms, statements and other documents required to be filed with the SEC pursuant to the Exchange Act since April 1, 1991 (collectively, the "Company SEC Documents"). With respect to the Retained Business, none of the Company SEC Documents, as of their respective filing dates, contained or will contain any untrue statement of a material fact or omitted or will omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, except where any such statement or omission would not have a Material Adverse Effect. Each of the consolidated balance sheets (including the related notes) included in the Company SEC Documents filed prior to or after the date of this Agreement (but prior to the date on which the Offer is consummated, and excluding the Company SEC Documents described in Section 4.8 hereof) fairly presents or will fairly present in all material respects the consolidated financial position of the Company and its subsidiaries as of the respective dates thereof, and the other related statements (including the related notes) included therein fairly present or will fairly present in all material respects the results of operations and the cash flows of the Company and its subsidiaries for the respective periods or as of the respective dates set forth therein, except in the case of any such balance sheets (including the related notes) or related statements (including the related notes) where the failure to so fairly present such financial position, results of operations or cash flows would not have a Material Adverse Effect. Each of the financial statements (including the related notes) included in the Company SEC Documents filed prior to or after the date of this Agreement (but prior to the date on which the Offer is consummated, and excluding the Company SEC Documents described in Section 4.8 hereof) has been prepared or will be prepared in all material respects in accordance with generally accepted accounting principles consistently applied during the periods involved, except (a) as otherwise noted therein or (b) to the extent required by changes in generally accepted accounting principles.

(b) Except as and to the extent set forth in Section 4.7(b) of the Disclosure Schedule, (i) each of the consolidated balance sheets (including the related notes) included in the financial statements of the Retained Business attached as Exhibit A to Section 4.7(b) of the Disclosure Schedule (the "Prescription Financial Statements") fairly presents in all material respects the consolidated financial position of the Retained Business as of the respective dates thereof, and (ii) the other related statements (including the related notes) included therein fairly present in all material respects the results of operations and the cash flows of the Retained Business for the respective periods or as of the respective dates set forth therein. The Prescription

Financial Statements have been prepared in all material respects in accordance with generally accepted accounting principles consistently applied during the periods involved, except as otherwise disclosed therein or in the notes thereto.

Section 4.8. Schedule 14D-9; Offer Documents; Form 10; Information Statement. None of the information included in the Schedule 14D-9 or the Form 10 or the Information Statement (as those terms are defined in the Distribution Agreement), or supplied by the Company for inclusion in the Offer Documents, including any amendments thereto, will be false or misleading with respect to any material fact or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. Except for information supplied by Parent in writing for inclusion therein, the Schedule 14D-9, the Form 10 and the Information Statement, including any amendments thereto, will comply in all material respects with the Exchange Act.

Section 4.9. No Default. Except as set forth in Section 4.9 of the Disclosure Schedule, neither the Company nor any of its subsidiaries is in default or violation (and no event has occurred which with notice or the lapse of time or both would constitute a default or violation) of any term, condition or provision of (i) its charter or its by-laws, (ii) any note, mortgage, indenture, other evidence of indebtedness, guarantee, license, agreement or other contract, instrument or contractual obligation to which the Company or any of its subsidiaries is now a party or by which they or any of their properties or assets may be bound, or (iii) any order, writ, injunction, decree, statute, rule or regulation applicable to the Company or any of its subsidiaries, except for defaults or violations under clauses (i) (with respect to Company subsidiaries other than the Retained Subsidiaries), (ii) and (iii) above (x) which in the aggregate would not have a Material Adverse Effect and would not have a material adverse effect on the ability of the Company or Spinco to consummate the transactions contemplated by this Agreement or (y) which become applicable as a result of the business or activities in which Parent or the Purchaser is or proposes to be engaged (other than the business or activities of the Retained Business to be acquired by the Purchaser, considered independently of the ownership thereof by Parent and the Purchaser) or as a result of any other facts or circumstances specific to Parent or the Purchaser.

Section 4.10. Litigation; Compliance with Law. (a) Except as set forth in Section 4.10 of the Disclosure Schedule or as disclosed in the Company SEC Documents, as of the date hereof (except as provided in the following sentence), there are no actions, suits, proceedings or, to the best knowledge of the Company, investigations, pending or, to the best knowledge of the Company, threatened, involving the Company or any of its subsidiaries, by or before any court, governmental or regulatory authority or by any third party which, either individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect. For purposes of indemnification for breach of this Section 4.10 under Section 5.2 of the Distribution Agreement, but not for determining whether or not the conditions to the Offer or the Merger have been satisfied, the Company represents and warrants that the foregoing representation and warranty shall be true and correct following the date hereof with respect to actions, suits, proceedings and investigations unrelated to and not arising from this Agreement or the Ancillary Agreements or the transactions contemplated hereby or thereby, including, without limitation, the Offer, the Merger and the Spin-Off, or the public disclosure of any of the foregoing.

(b) Except for those matters which in the aggregate would not have a Material Adverse Effect and those matters set forth in Section 4.10 of the Disclosure Schedule, (i) the Retained Business is not being, and has not in the last three years been, conducted in violation of any applicable law, ordinance, rule, regulation, decree or order of any court or governmental entity (including, without limitation, (A) laws regarding the provision of insurance, third party administration and primary health care services, (B) the Prescription Drug Marketing Act, the Federal Controlled Substances Act of 1970, the Food, Drug and Cosmetic Act and any state Pharmacy Practice Acts, Controlled Substance Acts, Dangerous Drugs Acts and Food, Drug and Cosmetic Acts, (C) Environmental Laws (as defined below), (D) the Foreign Corrupt Practices Act of 1977 and any other laws regarding use of funds for political activity or commercial bribery, and (E) ERISA and Labor Laws (as defined below)); (ii) the Retained Business has not made, caused or contributed to any

material release of any hazardous or toxic waste, substance or constituent, into the environment, and, to the Company's knowledge (such limitation of this representation to the Company's knowledge to be considered for purposes of determining whether or not the conditions to the Offer or the Merger have been satisfied, but not for purposes of indemnification for breach of this Section 4.10 under Section 5.2 of the Distribution Agreement), there are no hazardous wastes or toxic substances in, on, over or under the real property owned by the Retained Business; and (iii) the Retained Business is not subject to any compliance agreement or settlement agreement from an alleged violation of any Environmental Laws. Except for those matters which in the aggregate would not have a Material Adverse Effect, (i) the Retained Business is not engaged in any unfair labor practice, (ii) there is no labor strike or stoppage pending against or affecting the Retained Business, and (iii) the Company has not received notice of any pending petition for certification before the National Labor Relations Board with respect to any Retained Employees (as defined in Section 6.9 hereof) who are not currently organized. Except as set forth in Section 4.10 of the Disclosure Schedule, as of the date hereof, neither the Company nor any of its subsidiaries is subject to any continuing order of, consent decree, settlement agreement or other similar agreement with, or, to the knowledge of the Company, continuing investigation by, any governmental entity, or any judgment, order, writ, injunction, decree or award of any governmental entity or arbitrator, including, without limitation, cease-and-desist or other orders, except as disclosed in the Company SEC Documents filed prior to the date of this Agreement and except for any such order, consent decree, settlement agreement or other similar agreement, or investigation, judgment, order, writ, injunction, decree or award, which in the aggregate would not have a Material Adverse Effect. Except as set forth in Section 4.10 of the Disclosure Schedule, the Retained Business is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exemptions, consents, certificates, approvals and orders necessary to own, lease and operate its properties and to carry on its business as it is being conducted as of the date hereof (collectively, the "Company Permits"), and, to the knowledge of the Company, there is no action, proceeding or investigation pending or threatened regarding suspension or cancellation of any of the Company Permits, except in each case where the failure to possess, or the suspension or cancellation of, such Company Permits would not constitute a Material Adverse Effect. For purposes of this Agreement, "Environmental Laws" means all applicable laws, rules and regulations relating to pollution or the protection of the environment, including, without limitation, the Resource Conservation and Recovery Act, the Clean Air Act, the Federal Water Pollution Control Act, the Toxic Substances Control Act and the Comprehensive Environmental Response, Compensation and Liability Act); and "Labor Laws" mean all applicable laws respecting employment practices, terms and conditions of employment and wages and hours.

Section 4.11. Employee Benefit Plans; ERISA. (a) Section 4.11(a) of the Disclosure Schedule lists each "employee benefit plan" (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), and all other material employee benefit, bonus, incentive, stock option (or other equity-based), severance, change in control and fringe benefit plans (other than any employment or personnel policy, practice or procedure not subject to ERISA) maintained for the benefit of, or contributed to by the Company or its subsidiaries or any trade or business, whether or not incorporated (an "ERISA Affiliate"), that would be deemed a "single employer" within the meaning of Section 4001 of ERISA, for the benefit of any employee or former employee of the Company or any of its subsidiaries (the "Plans"). The Company has made available to the Purchaser copies of each of the Plans, including all amendments to date.

(b) Except for those matters which, either individually or in the aggregate, would not result in a Material Adverse Effect and except for those matters set forth in Section 4.11(b) of the Disclosure Schedule, (i) each of the Plans is, and has been, operated in accordance with its terms and in substantial compliance (including the making of governmental filings) with all applicable laws, including, without limitation, ERISA and the applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) each of the Plans intended to be "qualified" within the meaning of Section 401(a) of the Code has been determined by the Internal Revenue Service (the "IRS") to be so qualified and is not under audit by the IRS or the Department of Labor and the Company knows of no fact or set of circumstances that would adversely affect such qualification prior to the Effective Time, (iii) none of the Plans is subject to Title IV of ERISA, (iv) no

"reportable event", as such term is defined in Section 4043(b) of ERISA (for which the 30-day notice requirement to the PBGC has not been waived), has occurred with respect to any Plan, and (v) there are no pending or, to the best knowledge of Company, threatened claims (other than routine claims for benefits) by, on behalf of or against any of the Plans or any trusts related thereto.

(c) Except as set forth in Section 4.11(c) of the Disclosure Schedule, no Plan provides benefits, including without limitation death or medical benefits (whether or not insured), with respect to any employees of the Company or any of its subsidiaries beyond their retirement or other termination of service (other than (i) coverage mandated by applicable law, or (ii) benefits the full cost of which is borne by the current or former employee (or his or her beneficiary)), and none of the Company or its subsidiaries is contractually obligated to provide any person with such benefits upon retirement or termination of employment.

(d) Except as set forth in Section 4.11(d) of the Disclosure Schedule, and except for those matters which, either individually or in the aggregate, would not result in a Material Adverse Effect, (i) no Plan has incurred an "Accumulated Funding Deficiency" (as defined in Section 302 of ERISA or Section 412 of the Code), whether or not waived, (ii) the Company has not incurred any liability to the Pension Benefit Guaranty Corporation ("PBGC"), except for required premium payments, which payments have been made when due, (iii) the Company has not ceased operations at any facility or withdrawn from any Plan in a manner which could subject it to liability under Section 4062, 4063 or 4064 of ERISA, and, to the best of the Company's knowledge, no events have occurred which might give rise to any liability of the Company to the PBGC under Title IV of ERISA or which could reasonably be anticipated to result in any claims being made against Buyer by the PBGC, and (iv) the Company has not incurred any withdrawal liability (including any contingent or secondary withdrawal liability) within the meaning of Section 4201 and 4204 of ERISA to any multiemployer plan (within the meaning of Section 3(37) of ERISA).

(e) The Company has made available to Parent (i) copies of all employment agreements with officers and key employees of the Retained Business; (ii) copies of all severance agreements, programs and policies of the Retained Business with or relating to its officers and key employees; and (iii) copies of all plans, programs, agreements and other arrangements of the Retained Business with or relating to its officers and key employees which contain change in control provisions. Except as set forth on Section 4.11(e) of the Disclosure Schedule, no officer or key employee of the Retained Business has executed a non-competition agreement with the Retained Business.

Section 4.12. Assets; Title to Real Property. (a) Except as set forth in Section 4.12(a) of the Disclosure Schedule and except for those services to be provided pursuant to the Ancillary Agreements, upon consummation of the Spin-Off, the Company and the Retained Subsidiaries will have all assets, rights and contracts necessary to permit the Company and the Retained Subsidiaries to conduct the Retained Business as it is currently being conducted, except where the failure to have such assets, rights and contracts would not have a Material Adverse Effect.

(b) Section 4.12 of the Disclosure Schedule identifies all real property owned by the Company or its subsidiaries and used primarily by the Retained Business. The Company has, either directly or through its subsidiaries, (x) good and valid title to, free and clear of all mortgages, pledges, security interests, liens, charges, options, easements, rights-of-way or other encumbrances of any nature whatsoever (collectively, "Liens") other than Permitted Liens (as defined below), or (y) rights by lease or other agreement to use, all real property used by the Retained Business, except where the failure to have such title or rights would not have a Material Adverse Effect. The term "Permitted Liens" shall mean (i) Liens for water, sewage and similar charges and current taxes not yet due and payable or being contested in good faith, (ii) mechanics', carriers', workers', repairers', materialmen's, warehousemen's and other similar Liens arising or incurred in the ordinary course of business, (iii) such other Liens as would not in the aggregate have a Material Adverse Effect and (iv) Liens arising or resulting from any action taken by Parent or the Purchaser. All real property leases of property used in the Retained Business, under which the Company or any subsidiary is a lessee or lessor, are valid, binding and enforceable in all material respects in accordance with their terms and, to the best knowledge of the Company, there are no existing material defaults thereunder.

Section 4.13. Intellectual Property. Except as set forth in Section 4.13 of the Disclosure Schedule or as disclosed in the Company SEC Documents, there are no pending or threatened claims of which the Company or its subsidiaries have been given written notice, by any person against their use of any material trademarks, trade names, service marks, service names, mark registrations, logos, assumed names and copyright registrations, patents and all applications therefor which are owned by the Company or its subsidiaries and used in the operation of the Retained Business as currently conducted (collectively, the "Intellectual Property"). The Company and the Retained Subsidiaries have, or prior to the Spin-Off will have, such ownership of or such rights by license, lease or other agreement to the Intellectual Property as are necessary to permit them to conduct the Retained Business as currently conducted, except as set forth in Section 4.13 of the Disclosure Schedule or otherwise where the failure to have such ownership or rights would not, either individually or in the aggregate, result in a Material Adverse Effect. No Intellectual Property, and no services or products sold by the Retained Business, conflict with or infringe upon, in any material respect, any proprietary rights of others. To the Company's knowledge, no person is infringing on or violating, in any material respect, any of the rights of the Company and its subsidiaries to any of the Intellectual Property.

Section 4.14. Computer Software. The Company and the Retained Subsidiaries have, or prior to the Spin-Off will have, such title or such rights by license, lease or other agreement to the computer software programs (other than off-the-shelf software) which are owned, licensed, leased or otherwise used by the Company and the Retained Subsidiaries and which are material to the conduct of the Retained Business as currently conducted, as are necessary to permit the conduct of the Retained Business as currently conducted, except where the failure to have such title or rights would not, either individually or in the aggregate, result in a Material Adverse Effect.

Section 4.15. Certain Contracts and Arrangements. Except as set forth in Section 4.15 of the Disclosure Schedule, all agreements to which the Company or its subsidiaries are parties relating to the Retained Business are valid, binding and enforceable in all respects in accordance with their terms and neither the Company nor any of its subsidiaries is in default under any of such agreements, other than such failures to be valid, binding and enforceable or such defaults, if any, which would not have a Material Adverse Effect. Except as set forth in Section 4.15 of the Disclosure Schedule, during the twelve months immediately prior to the date hereof, no Significant Customer has cancelled or otherwise terminated its business relationships with the Retained Business. For purposes hereof, the term "Significant Customer" shall mean any customer of the Company's pharmaceutical management business which accounted for 50,000 or more members (determined on a consistent basis with the past practices of the Retained Business) during the year ended March 31, 1994. The Company has made available to Parent all material non-competition agreements or material agreements that restrict the geographic area in which the Retained Business may conduct business.

Section 4.16. Taxes. Except as otherwise disclosed in Section 4.16 of the Disclosure Schedule and except for those matters which, either individually or in the aggregate, would not result in a Material Adverse Effect:

(a) The Company and each of its subsidiaries have filed (or have had filed on their behalf) or will file or cause to be filed, all income Tax Returns required by applicable law to be filed by any of them prior to the consummation of the Offer, and all such Tax Returns and amendments thereto are or will be true, complete and correct.

(b) The Company and each of its subsidiaries have paid (or have had paid on their behalf), or where payment is not yet due, have established (or have had established on their behalf and for their sole benefit and recourse), or will establish or cause to be established before the consummation of the Offer, an adequate accrual for the payment of all Taxes due with respect to any period ending prior to or as of the expiration of the Offer.

(c) There are no Liens for any Taxes upon the assets of the Company or any of its subsidiaries used primarily in the Retained Business.

(d) No Audit is pending with respect to any Taxes due from the Company or any subsidiary. There are no outstanding waivers extending the statutory period of limitation relating to the payment of Taxes due from the Company or any subsidiary for any taxable period ending prior to the expiration of the Offer which are expected to be outstanding as of the expiration of the Offer.

(e) Neither the Company nor any subsidiary is a party to, is bound by, or has any obligation under, a tax sharing contract, other than the Tax Sharing Agreement.

(f) Neither the Company nor any of its subsidiaries has made an election under Section 341(f) of the Code.

(g) For purposes of this Section 4.16, capitalized terms have the following meaning:

(i) "Audit" shall mean any audit, assessment of Taxes, other examination by the Internal Revenue Service or any other domestic or foreign governmental authority responsible for the administration of any Taxes, proceeding or appeal of such proceeding relating to Taxes.

(ii) "Taxes" shall mean all Federal, state, local and foreign taxes, and other assessments of a similar nature (whether imposed directly or through withholding), including any interest, additions to tax, or penalties applicable thereto.

(iii) "Tax Returns" shall mean all Federal, state, local and foreign tax returns, declarations, statements, reports, schedules, forms and information returns and any amended Tax Return relating to Taxes.

Section 4.17. Certain Fees. Except as set forth in Section 4.17 of the Disclosure Schedule, neither the Company nor any subsidiary has employed any financial advisor or finder or incurred any liability for any financial advisory or finders' fees in connection with this Agreement or the Ancillary Agreements or the transactions contemplated hereby or thereby.

Section 4.18. No Additional Approvals Necessary. Assuming the accuracy of the representation and warranty set forth in Section 5.6 hereof, the Board of Directors of the Company has taken all actions necessary under the Company's Restated Certificate of Incorporation and the DGCL, including approving the transactions contemplated in this Agreement, to ensure that neither Section 203 of the DGCL nor the provisions of Article Eight of the Company's Restated Certificate of Incorporation will, prior to any termination of this Agreement, apply to this Agreement, the Offer, the Merger or the transactions contemplated hereby. As of the date hereof, neither Parent nor the Purchaser is a "Non-Approved Person", as such term is defined and used in Article Seven of the Company's Restated Certificate of Incorporation.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF PARENT AND THE PURCHASER

Parent and the Purchaser represent and warrant to the Company as follows:

Section 5.1. Organization. Each of Parent and the Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now being conducted. Each of Parent and the Purchaser has heretofore delivered to the Company an accurate and complete copy of its charter and by-laws, as currently in effect. Since the date of its incorporation, the Purchaser has not engaged in any activities other than in connection with or as contemplated by this Agreement or in connection with arranging any financing required to consummate the transactions contemplated hereby.

Section 5.2. Authority Relative to this Agreement. Each of Parent and the Purchaser has full corporate power and authority to execute and deliver this Agreement and the Ancillary Agreements (to the extent it is

a party thereto) and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the Ancillary Agreements (to the extent it is a party thereto) and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by the Boards of Directors of the Purchaser and Parent and by Parent as the sole stockholder of the Purchaser and no other corporate or other proceedings on the part of Parent, the Purchaser or any of their affiliates are necessary to authorize this Agreement or the Ancillary Agreements (to the extent it is a party thereto) or to consummate the transactions so contemplated. This Agreement has been, and each of the Ancillary Agreements have been, or will prior to the Record Date be, duly and validly executed and delivered by each of Parent and the Purchaser (to the extent it is a party thereto) and (except for the Memorandum of Understanding) constitute or (to the extent such agreement is not being entered into as of the date hereof) will constitute valid and binding agreements of each of Parent and the Purchaser, enforceable against each of Parent and the Purchaser in accordance with their respective terms, except to the extent that enforcement thereof may be limited by (a) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws, now or hereafter in effect, relating to creditors' rights generally and (b) general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

Section 5.3. Consents and Approvals; No Violations. Except for applicable requirements of the Exchange Act, the HSR Act, the filing and recordation of a certificate of merger, or a certificate of ownership and merger, as required by the DGCL, such filings and approvals as may be required under the "takeover" or "blue sky" laws of various states, and as contemplated by this Agreement and the Ancillary Agreements, neither the execution and delivery of this Agreement or the Ancillary Agreements by Parent or the Purchaser (to the extent it is a party thereto) nor the consummation by Parent or the Purchaser of the transactions contemplated hereby or thereby will (i) conflict with or result in any breach of any provision of the charter or by-laws of Parent or the Purchaser, (ii) require on the part of Parent or the Purchaser any filing with, or the obtaining of any permit, authorization, consent or approval of, any governmental or regulatory authority or any third party, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation, acceleration or payment, or to the creation of a lien or encumbrance) under any of the terms, conditions or provisions of any note, mortgage, indenture, other evidence of indebtedness, guarantee, license, agreement or other contract, instrument or contractual obligation to which Parent, the Purchaser or any of their respective subsidiaries is a party or by which any of them or any of their properties or assets may be bound, or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Parent, the Purchaser, any of their subsidiaries or any of their properties or assets, except for such requirements, defaults, rights or violations under clauses (ii), (iii) and (iv) above which would not in the aggregate have a material adverse effect on the business, results of operations or financial condition of Parent and its subsidiaries taken as a whole and would not have a material adverse effect on the ability of Parent or the Purchaser to consummate the transactions contemplated by this Agreement.

Section 5.4. Schedule 14D-9; Offer Documents; Proxy Statement; Form 10; Information Statement. None of the information included in the Offer Documents and none of the information (other than information supplied by Spinco in writing for inclusion therein) included in the proxy materials to be distributed, if necessary, to the Company's stockholders in connection with the Merger (the "Proxy Statement"), or supplied by Parent or the Purchaser for inclusion in the Schedule 14D-9, the Form 10 or the Information Statement, including any amendments thereto, will be false or misleading with respect to any material fact or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. Except for information supplied by the Company in writing for inclusion in the Offer Documents and except for information supplied by Spinco in writing for inclusion in any Proxy Statement, the Offer Documents and the Proxy Statement, if any, will comply in all material respects with the Exchange Act.

Section 5.5. Sufficient Funds. Parent and the Purchaser have, or will have prior to the satisfaction of the conditions to the Offer set forth in Exhibit F hereto, sufficient funds available to purchase all Shares on a

fully diluted basis at the Offer Price and the Merger Price and to perform the obligations set forth in Section 2.13 hereof.

Section 5.6. Beneficial Ownership of Shares. None of Parent, the Purchaser or any of their respective "affiliates" or "associates" (as those terms are defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act) "beneficially owns" (as that term is defined in Rule 13d-3(a) under the Exchange Act) more than 1% of the outstanding Shares or any securities convertible into or exchangeable for Shares.

ARTICLE VI

COVENANTS

Section 6.1. Conduct of Business of the Company. Except as contemplated by this Agreement or the Ancillary Agreements, during the period from the date of this Agreement to the consummation of the Offer and, if Parent has made a prompt request therefor pursuant to Section 1.4 hereof, until its Designated Directors (as defined in Section 8.4 hereof) shall constitute in their entirety a majority of the Company's Board of Directors, the Company and its subsidiaries will each conduct the operations of the Retained Business according to its ordinary course of business, consistent with past practice, and will conduct the operations of all businesses other than the Retained Business in such a manner that would not have a Material Adverse Effect and, with respect to the Retained Business, will use its commercially reasonable efforts to (i) preserve intact its business organization, (ii) maintain its material rights and franchises, (iii) keep available the services of its officers and key employees, and (iv) keep in full force and effect insurance comparable in amount and scope of coverage to that maintained as of the date hereof. Without limiting the generality of and in addition to the foregoing, and except as otherwise contemplated by this Agreement or the Ancillary Agreements, prior to the time specified in the preceding sentence, neither the Company nor any of its subsidiaries will, without the prior written consent of Parent:

(a) except for Spinco and its subsidiaries, amend its charter or by-laws;

(b) authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any stock of any class or any other securities (except (i) by the Company in connection with employee options or upon the conversion of the Series A Convertible Preferred Stock or Series B ESOP Preferred Stock in accordance with their respective terms as in effect on the date of this Agreement, (ii) by Armor All Products Corporation upon conversion of the Company's 4 1/2% Exchangeable Subordinated Debentures Due 2004, in accordance with the terms of the Indenture, dated as of March 14, 1994, between the Company and The First National Bank of Chicago, as Trustee (iii) by Spinco and its subsidiaries as contemplated by the Distribution Agreement or (iv) by any subsidiary other than any of the Retained Subsidiaries) or amend any of the terms of any such securities or agreements (other than such securities or agreements of any subsidiary other than any of the Retained Subsidiaries, or amendments of the Distribution Agreement as permitted thereunder) outstanding on the date hereof;

(c) other than with respect to any subsidiary which is not a Retained Subsidiary, split, combine or reclassify any shares of its capital stock, declare, set aside or pay any dividend or other distribution (whether in cash, stock or property or any combination thereof) in respect of its capital stock or redeem or otherwise acquire any of its securities or any securities of its subsidiaries; provided that the Company may declare and pay to holders of (i) Shares regular quarterly dividends of not more than $.42 per Share on the dividend declaration and payment dates normally applicable to the Shares and (ii) preferred stock of the Company any dividends required to be paid thereon in accordance with the express provisions thereof;

(d) except for Spinco or any of its subsidiaries (i) incur, assume or prepay any long-term debt or, except in the ordinary course of business under existing lines of credit, incur, assume, or prepay any material short-term debt; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for any material obligations of any other person except wholly owned subsidiaries

of the Company in the ordinary course of business and consistent with past practices; (iii) make any material loans, advances or capital contributions to, or investments in, any other person (other than loans or advances to subsidiaries and customary loans or advances to employees in accordance with past practices); (iv) change the Retained Business' practices with respect to the timing of payments or collections; (v) pledge or otherwise encumber shares of capital stock of the Company or any of its subsidiaries (other than that of Spinco and its subsidiaries); or (vi) mortgage or pledge any of the assets, tangible or intangible, of the Retained Business, or create or permit to exist any material Lien thereupon, other than in the ordinary course of business consistent with past practices;

(e) except as disclosed herein and except for arrangements with new or existing Retained Employees entered into in the ordinary course of business consistent with past practices, enter into, adopt or materially amend any bonus, profit sharing, compensation, severance, termination, stock option, stock appreciation right, restricted stock, performance unit, pension, retirement, deferred compensation, employment, severance or other employee benefit agreements, trusts, plans, funds or other arrangements of or for the benefit or welfare of any Retained Employee (as hereafter defined) (or any other person for whom the Retained Business will have liability), or (except for normal increases in the ordinary course of business that are consistent with past practices) increase in any manner the compensation or fringe benefits of any Retained Employee (or any other person for whom the Retained Business will have liability) or pay any benefit not required by any existing plan and arrangement (including, without limitation, the granting of stock options, stock appreciation rights, shares of restricted stock or performance units) or enter into any contract, agreement, commitment or arrangement to do any of the foregoing;

(f) transfer, sell, lease, license or dispose of any assets relating to the Retained Business outside the ordinary course of business or any assets which are material, in the aggregate, to the Retained Business or enter into any material commitment or transaction with respect to the Retained Business outside the ordinary course of business;

(g) acquire or agree to acquire, by merging or consolidating with, by purchasing an equity interest in or a portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets of any other person (other than the purchase of assets in the ordinary course of business and consistent with past practice), in each case where such action would, individually be material to the Retained Business;

(h) except as may be required by law, take any action to terminate or materially amend any of its employee benefit plans with respect to or for the benefit of Retained Employees or any other person for whom the Retained Business will have liability;

(i) materially modify, amend or terminate (except pursuant to the terms thereof) any of the material contracts of the Retained Business or waive any material rights or claims of the Retained Business, except in the ordinary course of business;

(j) effect any material change in any of its methods of accounting in effect as of March 31, 1994, except as may be required by law or generally accepted accounting principles;

(k) enter into any material arrangement, agreement or contract with any third party (other than customers in the ordinary course of business consistent with past practices) which provides for an exclusive arrangement with that third party; and

(l) take, or agree in writing or otherwise to take, any of the foregoing actions.

Notwithstanding any of the foregoing and in addition to any other rights of the Company and its subsidiaries, the Company and its subsidiaries shall have the right to take any of the actions prohibited under clauses (a) and (d)--(l) of this Section 6.1 if such actions would not, either individually or in the aggregate, adversely impact the Retained Business or the consummation of any of the material transactions contemplated pursuant to this Agreement.

Section 6.2. Acquisition Proposals. (a) The Company and its officers, directors, employees, representatives and agents shall immediately cease any existing discussions or negotiations with any parties

conducted heretofore with respect to any Acquisition Proposal (as hereafter defined). The Company and its subsidiaries will not, and will use their best efforts to cause their respective officers, directors, employees and investment bankers, attorneys, accountants or other agents retained by the Company or any of its subsidiaries not to, (i) initiate or solicit, directly or indirectly, any inquiries or the making of any Acquisition Proposal, or (ii) except as permitted below, engage in negotiations or discussions with, or furnish any information or data to any third party relating to an Acquisition Proposal (other than the transactions contemplated hereby and by the Ancillary Agreements). Notwithstanding anything to the contrary contained in this Section 6.2 or in any other provision of this Agreement, the Company and the Board of Directors of the Company (i) may furnish information to, and participate in discussions or negotiations (including, as a part thereof, making any counterproposal) with, any third party which submits a written Acquisition Proposal to the Company if the Company's Board of Directors determines in good faith, based upon the advice of counsel, that the failure to furnish such information or participate in such discussions or negotiations may reasonably constitute a breach of the Board's fiduciary duties under applicable law, and (ii) shall be permitted to (A) take and disclose to the Company's stockholders a position with respect to the Offer, the Merger or the Spin-Off or another tender or exchange offer by a third party, or amend or withdraw such position, pursuant to Rules 14d-9 and 14e-2 of the Exchange Act or (B) make disclosure to the Company's stockholders, in each case either with respect to or as a result of an Acquisition Proposal, or if the Company's Board of Directors determines in good faith, based upon the advice of counsel, that the failure to take such action may reasonably constitute a breach of the Board's fiduciary duties under, or otherwise violate, applicable law; provided that the Company shall not enter into any acquisition agreement with respect to any Acquisition Proposal except concurrently with or after the termination of this Agreement and shall not enter into any other agreements with respect to an Acquisition Proposal except concurrently with or after such termination unless, and only to the extent that, such other agreements would facilitate the process of providing information to, or conducting discussions or negotiations with, the party submitting such an Acquisition Proposal, such as confidentiality and standstill agreements. The Company shall promptly provide Parent with a copy of any written Acquisition Proposal received and inform Parent on a reasonable basis of the status and content of any discussions with such a third party (provided that the Company shall not be obligated to so provide such information or advise Parent if the Company's Board of Directors determines in good faith, based upon the advice of counsel, that such action may reasonably constitute a breach of its fiduciary duties under applicable law). In no event shall the Company provide non-public information regarding the Retained Business to any third party making an Acquisition Proposal unless such party enters into a confidentiality agreement containing provisions designed to reasonably protect the confidentiality of such information. In the event that following the date hereof the Company enters into a confidentiality agreement with any third party which does not include terms and conditions which are substantially similar to the provisions of Section 7 (the "Standstill Provisions") of the letter agreement, dated as of June 8, 1994, between the Company and Parent (the "Confidentiality Agreement"), then Parent and its affiliates shall be released from their obligations under such Standstill Provisions to the same extent as such third party.

(b) For purposes of this Agreement, the term "Acquisition Proposal" shall mean any bona fide proposal made by a third party to acquire (i) beneficial ownership (as defined under Rule 13(d) of the Exchange Act) of a majority equity interest in either the Company or the Retained Business pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, tender offer or exchange offer or similar transaction involving either the Company or the Retained Business, including, without limitation, any single or multi-step transaction or series of related transactions which is structured in good faith to permit such third party to acquire beneficial ownership of a majority or greater equity interest in either the Company or the Retained Business or (ii) all or substantially all of the business or assets of either the Company or of the Retained Business (other than the transactions contemplated by this Agreement and the Ancillary Agreements); provided, however, that the term "Acquisition Proposal" shall not include any transactions which relate solely to the businesses to be owned by Spinco and its subsidiaries following the Spin-Off and which do not have a material adverse effect on the consummation of the Offer, the Merger, the Spin-Off or the transactions contemplated hereby.

Section 6.3. Access to Information.

(a) Between the date of this Agreement and the Effective Time, during normal business hours, the Company will give Parent and its authorized representatives reasonable access to all offices and other facilities and to all books and records of it and its subsidiaries relating to the Retained Business, will permit Parent to make such inspections as it may reasonably require and will cause its officers and those of its subsidiaries to furnish Parent with (i) such financial and operating data and other information with respect to the Retained Business as Parent may from time to time reasonably request, or (ii) any other financial and operating data which materially impacts the Retained Business. Parent and its authorized representatives will conduct all such inspections in a manner which will minimize any disruptions of the business and operations of the Company and its subsidiaries.

(b) Parent, the Purchaser and the Company agree that the provisions of the Confidentiality Agreement shall remain binding and in full force and effect (subject, however, to the provisions of Section 6.2(a) hereof) and that the terms of the Confidentiality Agreement are incorporated herein by reference.

Section 6.4. Best Efforts. Subject to the terms and conditions herein provided and without limitation to the provisions of Section 6.6 hereof, each of the parties hereto agrees to use its best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements (including, without limitation, cooperating in the preparation and filing of the Offer Documents, the Schedule 14D-9, the Proxy Statement, the Form 10 and the Information Statement and any amendments to any thereof, and executing any additional instruments necessary to consummate the transactions contemplated hereby). In case at any time after the Effective Time any further action is necessary to carry out the purposes of this Agreement, the proper officers and directors of each party hereto shall use their best efforts to take all such necessary action.

Section 6.5. Consents. Each of the Company, Parent and the Purchaser shall cooperate, and use their respective best efforts, in as timely a manner as is reasonably practicable, to make all filings and obtain all licenses, permits, consents, approvals, authorizations, qualifications and orders of governmental authorities and other third parties necessary to consummate the transactions contemplated by this Agreement and the Ancillary Agreements. Each of the parties hereto will furnish to the other party such necessary information and reasonable assistance as such other persons may reasonably request in connection with the foregoing and will provide the other party with copies of all filings made by such party with any governmental entity or any other information supplied by such party to a governmental entity in connection with this Agreement and the transactions contemplated hereby.

Section 6.6. HSR Filings. (a) In addition to and without limiting the agreements of Parent and the Purchaser contained in Section 6.5 hereof, Parent, the Purchaser and the Company will (i) take promptly all actions necessary to make the filings required of Parent, the Purchaser or any of their affiliates under the HSR Act, (ii) comply at the earliest practicable date with any request for additional information or documentary material received by Parent, the Purchaser or any of their affiliates from the Federal Trade Commission or the Antitrust Division of the Department of Justice pursuant to the HSR Act and (iii) cooperate with the Company in connection with any filing of the Company under the HSR Act and in connection with resolving any investigation or other inquiry concerning the transactions contemplated by this Agreement or the Ancillary Agreements commenced by either the Federal Trade Commission or the Antitrust Division of the Department of Justice or state attorneys general.

(b) In furtherance and not in limitation of the covenants of Parent and the Purchaser contained in Sections 6.5 and Section 6.6(a) hereof, Parent, the Purchaser and the Company shall each use their best efforts to resolve such objections, if any, as may be asserted with respect to the Offer, the Spin-Off, the Merger or any other transactions contemplated by this Agreement or the Ancillary Agreements under any Antitrust Law (as hereafter defined). If any administrative, judicial or legislative action or proceeding is instituted (or threatened to be instituted) challenging the Offer, the Spin-Off, the Merger or any other transactions

contemplated by this Agreement or the Ancillary Agreements as violative of any Antitrust Law, Parent, the Purchaser and the Company shall each cooperate and use its best efforts vigorously to contest and resist any such action or proceeding, and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order (whether temporary, preliminary or permanent) (any such decree, judgment, injunction or other order is hereafter referred to as an "Order") that is in effect and that restricts, prevents or prohibits consummation of the Offer, the Spin-Off, the Merger or any other transactions contemplated by this Agreement or the Ancillary Agreements, including, without limitation, by vigorously pursuing all available avenues of administrative and judicial appeal and all available legislative actions. Parent and the Purchaser shall each also use its best efforts to take such action, including, without limitation (but subject to the provisions of paragraph (c) below), agreeing to hold separate or to divest any of the businesses, product lines, or assets of Parent or the Purchaser or any of their affiliates or, following the consummation of the Offer or the Effective Time, of the Company or any of the Retained Subsidiaries, as may be required (a) by the applicable governmental or regulatory authority (including without limitation the Federal Trade Commission, the Antitrust Division of the Department of Justice or any state attorney general) in order to resolve such objections as such governmental or regulatory authority may have to such transactions under such Antitrust Law, or (b) by any domestic or foreign court or other tribunal, in any action or proceeding brought by a private party or governmental or regulatory authority challenging such transactions as violative of any Antitrust Law, in order to avoid the entry of, or to effect the dissolution, vacating, lifting or reversal of, any Order that has the effect of restricting, preventing or prohibiting the consummation of any such transactions. The entry by a court or other tribunal, in any action or proceeding brought by a private party or governmental or regulatory authority challenging the transactions contemplated hereby as violative of any Antitrust Law, of an Order permitting such transactions, but requiring that any of the businesses, product lines or assets of any of Parent, the Purchaser or any of their affiliates or, following the consummation of the Offer or the Effective Time, of the Company or any of the Retained Subsidiaries be divested or held separate by Parent and the Purchaser, or that would otherwise limit Parent's and the Purchaser's freedom of action with respect to, or their ability to retain, the Company, any Retained Subsidiary or any businesses, product lines or assets thereof or any of Parent's or the Purchaser's or their respective affiliates' other businesses, product lines or assets, shall not be deemed a failure to satisfy any of the conditions specified in Article VII hereof (subject however to the provisions of paragraph (c) below). Notwithstanding the foregoing, the Company shall not be required to divest or hold separate or otherwise take or commit to take any action that, prior to the Effective Time, limits its freedom of action with respect to, or its ability to retain, its subsidiaries or any of their respective businesses, product lines or assets.

(c) Notwithstanding anything to the contrary contained in this Section 6.6 or in Sections 6.4 or 6.5 hereof, (i) neither Parent nor any of its subsidiaries or affiliates shall be required to agree to divest (A) any of their respective businesses, product lines or assets, if the fair market value of any such businesses, product lines or assets is, as of the date in question, in excess of $10 million (after taking into account the present and future prospects thereof) or (B) following the consummation of the Offer or the Effective Time, any of the businesses, product lines or assets of the Company or any of the Retained Subsidiaries; and (ii) neither Parent nor any of its subsidiaries or affiliates shall be required to take or agree to take any action or agree to any limitation which would materially impair Parent's ability to exercise control over or manage the business and affairs of the Retained Business or materially impair Parent's ability to obtain the other benefits provided by this Agreement in order to obtain termination of the waiting period under the HSR Act.

(d) Each of the Company, Parent and the Purchaser shall promptly inform the other party of any material communication received by such party from the Federal Trade Commission, the Antitrust Division of the Department of Justice or any other governmental or regulatory authority regarding any of the transactions contemplated hereby. Parent and the Purchaser will advise the Company promptly in respect of any understandings, undertakings or agreements (oral or written) which Parent or the Purchaser proposes to make or enter into with the Federal Trade Commission, the Antitrust Division of the Department of Justice or any other governmental or regulatory authority in connection with the transactions contemplated hereby.

(e) "Antitrust Law" means the Sherman Act, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other federal, state and foreign statutes, rules,

regulations, orders, decrees, administrative and judicial doctrines, and other laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

Section 6.7. Public Announcements. Parent, the Purchaser and the Company will consult with each other before issuing any press release or otherwise making any public statements with respect to the Offer or the Merger and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by law or by obligations pursuant to any listing agreement with any securities exchange.

Section 6.8. Employee Agreements. Prior to the Spin-Off, the Company shall use its best efforts to, and shall use its best efforts to cause its subsidiaries to, assign to Spinco or its subsidiaries or terminate all employment agreements with officers of the Company who are not Retained Employees (the "Employment Agreements") and all severance agreements with officers of the Company who are not Retained Employees (the "Severance Agreements"). The parties hereto acknowledge and agree that, whether or not such Employment Agreements and Severance Agreements are so assigned or terminated, all liabilities and obligations under or arising from such Employment Agreements and Severance Agreements shall be deemed to be "Company Liabilities", as such term is defined in the Distribution Agreement, with respect to which Spinco shall indemnify the Company and Parent as provided therein. Parent acknowledges and agrees that the employment agreements and severance agreements with the Retained Employees (as defined in Section 6.9 below) set forth in Section 6.8 of the Disclosure Schedule will be binding and enforceable obligations of the Surviving Corporation, except as the parties thereto may otherwise agree. The parties hereto acknowledge and agree that all liabilities and obligations under or arising from such agreements with the Retained Employees from and after the consummation of the Offer shall be deemed to be "Prescription Liabilities" as such term is defined in the Distribution Agreement, with respect to which the Company shall indemnify Spinco as provided therein.

Section 6.9. Employee Benefits. Parent hereby agrees as follows:

(a) For a period of three years following the Effective Time, Parent shall cause the Surviving Corporation and its successors to provide the employees of the Company and its subsidiaries remaining with the Company and the Retained Subsidiaries following the Spin-Off and former employees of the Retained Business (collectively, the "Retained Employees") with employee benefits, programs, policies and arrangements which in the aggregate are no less favorable than those provided by the Company to such Retained Employees immediately prior to the date hereof. With respect to such benefits, programs, policies and arrangements, service accrued by such Retained Employees during employment with the Company and its subsidiaries prior to the Effective Time shall be preserved and maintained for all purposes except to the extent that benefits may be duplicated.

(b) As soon as practicable following the Effective Time, Spinco shall take all action necessary and appropriate to cause the assets and liabilities of the Company Retirement Plan (the "Retirement Plan") attributable to Retained Employees (other than former employees of the Retained Business) to be transferred, in compliance with Section 414(l) of the Code and the Treasury Regulations applicable thereto and on terms reasonably satisfactory to Parent and the Surviving Corporation, to a comparable defined benefit pension plan sponsored by Parent, the Purchaser or the Surviving Corporation (the "Parent DB Plan") in which such employees are eligible to participate. Following such transfer, Parent, the Purchaser, the Surviving Corporation and the Parent DB Plan (or any successor thereto) shall be solely responsible for all liabilities under the Retirement Plan relating to such Retained Employees.

(c) The Company and Spinco shall take all action necessary and appropriate to cause the Profit Sharing and Investment Plan, as amended (the "PSIP"), to be assumed by Spinco, effective as of the Effective Time. In connection therewith, all of the indebtedness of the Company (and guarantees made by the Company of indebtedness of the trust established under the PSIP) relating to the unallocated Shares and unallocated shares of Series B ESOP Preferred Stock held by the PSIP shall be assumed by Spinco, effective as of the Effective Time. As soon as practicable after the Effective Time, Spinco shall take all action necessary and

appropriate to cause the account balances under the PSIP of Retained Employees (other than former employees of the Retained Business) to be transferred to a defined contribution plan sponsored by Parent, the Purchaser or the Surviving Corporation (the "Parent DC Plan") in which such Retained Employees are eligible to participate. Following such transfer, Parent, the Purchaser, the Surviving Corporation and the Parent DC Plan (or any successor thereto) shall be solely responsible for all liabilities under the PSIP relating to such Retained Employees.

Section 6.10. Ancillary Agreements; Spin-Off. (a) Simultaneously with the execution hereof, the Company and certain of its subsidiaries are entering into the Distribution Agreement and each of the Additional Agreements. Immediately prior to the Record Date, the Company, Spinco and certain other parties will enter into the Tax Sharing Agreement. The parties thereto may hereafter amend any of the Ancillary Agreements, provided that no such amendment to the Distribution Agreement or any of the Additional Agreements may be made which adversely affects the Retained Business or Spinco's performance of its obligations under such Agreement without the prior written consent of Parent. Subject to Section 3.2 of the Distribution Agreement, the Company shall use its best efforts to consummate as promptly as reasonably practicable the transactions provided for in the Distribution Agreement, including, without limitation, the Spin-Off.

(b) From and after the Effective Time, Parent shall cause the Surviving Corporation to perform any and all agreements and obligations of the Company set forth in the Ancillary Agreements and in the other agreements contemplated thereby.

(c) Parent and the Purchaser accept and agree that the form of certificate of incorporation and by-laws of Spinco adopted in contemplation of the Spin-Off shall be as agreed to by the Company and Spinco in their sole discretion, provided that nothing in the charter and by-laws (to the extent such charter and by-laws differ materially from the provisions of the Restated Certificate of Incorporation and By-Laws of the Company as in effect as of the date hereof) shall adversely affect Spinco's performance of its obligations under the Ancillary Agreements.

(d) If, for any reason, any shares of common stock of Spinco distributed in the Spin-Off are received by Parent or the Purchaser or any of their subsidiaries with respect to Shares acquired by the Purchaser in the Offer or otherwise, then Parent or the Purchaser shall convey, on behalf of the Company, such shares of Spinco to the stockholders of the Company who would have otherwise received such shares of Spinco pursuant to the Distribution Agreement.

(e) If the Company reasonably determines that the Spin-Off may not be effected without registering the shares of common stock of Spinco to be distributed in the Spin-Off pursuant to the Securities Act, the Company, Parent and the Purchaser, as promptly as practicable, shall use their respective best efforts to cause the shares of Spinco to be registered pursuant to the Securities Act and thereafter effect the Spin-Off in accordance with the terms of the Distribution Agreement including, without limitation, by preparing and filing on an appropriate form a registration statement under the Securities Act covering the shares of Spinco and using their respective best efforts to cause such registration statement to be declared effective and preparing and making such other filings as may be required under applicable state securities laws.

(f) Parent shall, and shall cause the Surviving Corporation to, treat the Spin-Off for purposes of all federal and state taxes as an integrated transaction with the Offer and the Merger and thus report the Spin-Off as a constructive redemption of a number of Shares equal in value to the value of Spinco at the time of the Spin-Off.

Section 6.11. Retained Business Financial Statements. The parties hereto acknowledge that Deloitte & Touche is currently auditing a balance sheet, income statement and statement of cash flows of the Retained Business as of and for each of the three fiscal years ended March 31, 1992, March 31, 1993 and March 31, 1994 (the "Retained Business Financial Statements"). The Company hereby agrees to use its best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable to assist and otherwise cause Deloitte & Touche to complete the audit of the Retained Business Financial Statements as promptly as reasonably practicable. The Company will pay Deloitte & Touche's fees and

expenses for auditing the Retained Business Financial Statements. The Company also agrees to provide to Parent as promptly as reasonably practicable such quarterly unaudited financial information relating to the Retained Business and covering periods following the date hereof as may be prepared by the Company in the ordinary course.

Section 6.12. Pre-Closing Consultation. Following the date hereof and prior to the Effective Time, the Company shall designate a senior officer of the Company (the "Company Representative") to consult with an officer of Parent designated by Parent (the "Parent Representative") with respect to major business decisions to be made concerning the operation of the Retained Business. Such consultation shall be made on as frequent a basis as may be reasonably requested by Parent. The parties hereto acknowledge and agree that the agreements set forth in this Section 6.12 shall be subject to any restrictions or limitations under applicable law.

ARTICLE VII

CONDITIONS TO CONSUMMATION OF THE MERGER

Section 7.1. Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger is subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) This Agreement shall have been adopted by the affirmative vote of the stockholders of the Company by the requisite vote in accordance with applicable law, if required by applicable law;

(b) No statute, rule, regulation, order, decree, or injunction shall have been enacted, entered, promulgated or enforced by any court or governmental authority which prohibits or restricts the consummation of the Merger;

(c) Any waiting period applicable to the Merger under the HSR Act shall have terminated or expired;

(d) The Spin-Off shall have been consummated in all material respects; and

(e) The Offer shall not have been terminated in accordance with its terms prior to the purchase of any Shares.

Section 7.2. Conditions to the Obligation of the Company to Effect the Merger. The obligation of the Company to effect the Merger is further subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) The representations and warranties of Parent and the Purchaser contained in this Agreement shall be true and correct in all material respects at and as of the Effective Time as if made at and as of such time; and

(b) Each of Parent and the Purchaser shall have performed in all material respects its obligations under this Agreement required to be performed by it at or prior to the Effective Time pursuant to the terms hereof.

Parent and the Purchaser will furnish the Company with such certificates and other documents to evidence the fulfillment of the conditions set forth in this Section 7.2 as the Company may reasonably request.

Section 7.3. Conditions to Obligations of Parent and the Purchaser to Effect the Merger. The obligations of Parent and the Purchaser to effect the Merger are further subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) The representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects at and as of the Effective Time as if made at and as such time; and

(b) The Company shall have performed in all material respects each of its obligations under this Agreement required to be performed by it at or prior to the Effective Time pursuant to the terms hereof.

The Company will furnish Parent and the Purchaser with such certificates and other documents to evidence the fulfillment of the conditions set forth in this Section 7.3 as Parent or the Purchaser may reasonably request.

Section 7.4. Exception. The conditions set forth in Section 7.3 hereof shall cease to be conditions to the obligations of the parties if the Purchaser shall have accepted for payment and paid for Shares validly tendered pursuant to the Offer, provided that the terms of this exception will be deemed satisfied if the Purchaser fails to accept for payment any Shares pursuant to the Offer in violation of the terms thereof.

ARTICLE VIII

TERMINATION; AMENDMENT; WAIVER

Section 8.1. Termination. This Agreement may be terminated and the Merger contemplated hereby may be abandoned at any time notwithstanding approval thereof by the stockholders of the Company, but prior to the Effective Time:

(a) by mutual written consent of Parent, the Purchaser and the Company;

(b) by either Parent, on the one hand, or the Company, on the other hand, if the Offer shall expire or have been terminated in accordance with its terms without any Shares being purchased thereunder, or the Purchaser shall not have accepted for payment or paid for Shares validly tendered pursuant to the Offer prior to December 31, 1994;

(c) by Parent, on the one hand, or the Company, on the other hand, if any court of competent jurisdiction in the United States or other United States governmental body shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action shall have become final and nonappealable;

(d) by the Company if, prior to the purchase of Shares pursuant to the Offer, (i) a third party shall have made an Acquisition Proposal and the Board of Directors of the Company determines in good faith, based upon the advice of counsel, that the failure to pursue such Acquisition Proposal may reasonably constitute a breach of its fiduciary duties under applicable law (provided that such termination under this Section 8.1(d) shall not be effective until payment of the fee required by Section 8.3(a) hereof), or (ii)(A) other than in response to an Acquisition Proposal, the Board of Directors of the Company determines in good faith, based upon the advice of counsel, that the failure to so terminate this Agreement would present a substantial likelihood of a breach of its fiduciary duties under applicable law and (B) the Company notifies Parent of such determination of its Board of Directors at least 30 days prior to the date of any such termination (provided that such termination shall not be effective until payment of the fee referred to in Section 8.3(d) hereof); or

(e) by Parent prior to the purchase of Shares pursuant to the Offer, if the Company or its Board of Directors shall have (i) withdrawn (including by amendment of the Schedule 14D-9) its recommendation to the Company's stockholders of the Offer, this Agreement or the Merger or shall have recommended to the Company's stockholders that they accept the terms of a Third Party Acquisition (as defined below), or (ii) a Third Party Acquisition shall have occurred (provided that any termination under clauses (i) or (ii) of this Section 8.1(e) shall not relieve the Company of its fee obligations under Section 8.3(b) hereof).

Notwithstanding anything to the contrary contained in this Section 8.1, in the event that the Designated Directors (as defined in Section 8.4 hereof) constitute in their entirety a majority of the Company's Board of Directors, the Company shall not be permitted to terminate, or consent to the termination of, this Agreement without the approval of a majority of the Continuing Directors (as defined in Section 8.4 hereof) if at the time thereof there shall be any Continuing Directors.

Section 8.2. Effect of Termination. In the event of the termination and abandonment of this Agreement pursuant to Section 8.1 hereof, this Agreement shall forthwith become void and have no effect,

without any liability on the part of any party or its directors, officers or shareholders, other than the provisions of Sections 6.3(b), 8.3, 9.3 and 9.11 hereof. Nothing contained in this Section 8.2 shall relieve any party from liability for any willful breach of this Agreement.

Section 8.3. Fees and Expenses. (a) If the Company terminates this Agreement pursuant to Section 8.1(d)(i) hereof, the Company shall, simultaneously with such termination, pay to Parent a fee, in cash, of $100 million.

(b) If Parent terminates this Agreement pursuant to Section 8.1(e) hereof and prior to such termination or within nine months thereafter, a Third Party Acquisition is consummated involving any entity or group (other than Parent and the Purchaser or any affiliate thereof) which is a Higher Offer (as defined below), then the Company shall, on the date of such termination or consummation (whichever is later) or, if later, the date of the determination contemplated pursuant to Section 8.3(e) hereof, pay to Parent a fee, in cash, of $100 million.

(c) If the Company or Parent terminates this Agreement for any reason other than the bases for terminating this Agreement under Sections 8.1(a), (d)(i) or (e) hereof (unless Parent or the Purchaser shall at the time of such termination be in material breach, other than a breach which is curable, and which Parent and the Purchaser are using their best efforts to cure) and prior to or within nine months after the date of such termination a Third Party Acquisition is consummated involving any entity or group (other than Parent and the Purchaser or any affiliate thereof) which is a Higher Offer, then the Company shall, on the date of such termination or consummation (whichever is later) or, if later, the date of the determination contemplated pursuant to Section 8.3(e) hereof, pay to Parent a fee, in cash, of $100 million (subject to the proviso in the last sentence of Section 8.3(g)).

(d) If the Company terminates this Agreement pursuant to Section 8.1(d)(ii) hereof (unless Parent or the Purchaser shall at the time of such termination be in material breach, other than a breach which is curable, and which Parent and the Purchaser are using their best efforts to cure) the Company shall, simultaneously with such termination, pay to Parent a fee, in cash, of $40 million.

(e) As used herein, the term "Third Party Acquisition" means the occurrence of any of the following events (i) the acquisition of the Company by merger or otherwise by any person (which includes a "person" as such term is defined in Section 13(d)(3) of the Exchange Act) or entity other than Parent, the Purchaser or any affiliate thereof (a "Third Party"); (ii) the acquisition by a Third Party of more than 50% of the total assets of the Company and its subsidiaries, taken as a whole, or of 50% or more of the total assets of the Retained Business; or (iii) the acquisition by a Third Party of 50% or more of the outstanding Shares, or 50% or more of the equity interest in, or the voting power with respect to the election of directors of, the Retained Business. As used herein, the term "Higher Offer" means any Third Party Acquisition which reflects a higher value for the Retained Business than the value being provided by Parent pursuant to the Offer, the Merger and the Additional Agreements. In valuing such a Third Party Acquisition, due regard shall be given to the value to the Company or its stockholders of any additional arrangements involved in such Third Party Acquisition. In the first instance, such determination shall be made by the Company's Board of Directors prior to consummation of such Third Party Acquisition, and written notice of such determination shall be provided promptly to Parent. In the event that Parent objects to the Company's determination as to whether a Third Party Acquisition is a Higher Offer, Parent shall so notify the Company in writing within 20 days of receipt of such notice. If the parties are unable to resolve such dispute within 20 days of the Company's receipt of such notice from Parent, the financial advisors of each of the Company and Parent shall jointly select a third, independent and nationally-recognized investment banking firm (the "IB"). The IB shall thereupon determine as promptly as practicable whether or not the Third Party Acquisition constitutes a Higher Offer, taking into account all relevant facts and circumstances. The parties hereto agree to cooperate with the IB (including, without limitation, providing the IB with full access to all such information which the IB deems relevant and which the IB agrees to keep confidential) to the extent reasonably requested by the IB. The fees and expenses incurred by the IB shall be shared equally by the Company and Parent. The determination of the IB shall be final and binding upon the parties hereto. In the event that the IB determines that the Third

Party Acquisition constitutes a Higher Offer, the Company shall pay to Parent the $100 million cash fee referred to above within five business days following the date of such determination.

(f) Except as specifically provided in this Section 8.3 and except as otherwise specifically provided in the Distribution Agreement, each party shall bear its own costs and expenses in connection with this Agreement and the transactions contemplated hereby.

(g) Notwithstanding anything to the contrary contained in this Agreement, upon payment by the Company of the fees and expenses referred to in this Section 8.3, the Company shall be released from all liability hereunder, including any liability for any claims by Parent, the Purchaser or any of their affiliates based upon or arising out of any breach of this Agreement or any Ancillary Agreement. In no event shall the Company be required to pay more than one fee pursuant to this Section 8.3, provided that if the Company shall have paid the $40 million fee contemplated by Section 8.3(d) hereof and a $100 million fee shall otherwise become payable pursuant to this Section 8.3, the Company shall pay Parent at that time $60 million.

Section 8.4. Amendment. This Agreement may be amended by action taken by the Company, Parent and the Purchaser at any time before or after adoption of the Merger by the stockholders of the Company, if any; provided that (x) in the event that any persons designated by Parent pursuant to Section 1.4 hereof (such directors are hereinafter referred to as the "Designated Directors") constitute in their entirety a majority of the Company's Board of Directors, no amendment shall be made which decreases the cash price per Share or which adversely affects the rights of the Company's stockholders hereunder without the approval of a majority of the Continuing Directors (as hereafter defined) if at the time there shall be any Continuing Directors and (b) after the date of adoption of the Merger by the stockholders of the Company, no amendment shall be made which decreases the cash price per Share or which adversely affects the rights of the Company's stockholders hereunder without the approval of such stockholders. This Agreement may not be amended except by an instrument in writing signed on behalf of the parties. For purposes hereof, the term "Continuing Director" shall mean (a) any member of the Board of Directors of the Company as of the date hereof, (b) any member of the Board of Directors of the Company who is unaffiliated with, and not a Designated Director or other nominee of, Parent or the Purchaser or their respective subsidiaries, and (c) any successor of a Continuing Director who is (i) unaffiliated with, and not a Designated Director or other nominee of, Parent or the Purchaser or their respective subsidiaries and (ii) recommended to succeed a Continuing Director by a majority of the Continuing Directors then on the Board of Directors.

Section 8.5. Extension; Waiver. At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties of the other parties contained herein or in any document, certificate or writing delivered pursuant hereto or (c) waive compliance with any of the agreements or conditions of the other parties hereto contained herein; provided that (x) in the event that any Designated Directors constitute in their entirety a majority of the Company's Board of Directors, no extensions or waivers shall be made which adversely affect the rights of the Company's stockholders hereunder without the approval of a majority of the Continuing Directors if at the time there shall be any Continuing Directors and (y) after the date of adoption of the Merger by the stockholders of the Company, no extensions or waivers shall be made which adversely affect the rights of the Company's stockholders hereunder without the approval of such stockholders. Any agreement on the part of any party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE IX

MISCELLANEOUS

Section 9.1. Survival. Except as otherwise expressly set forth in the Distribution Agreement, the representations, warranties, covenants and agreements made herein shall not survive beyond the Effective Time; provided that the covenants and agreements contained in Sections 2.7, 2.8, 2.10, 3.1, 3.2, 6.3(b), 6.4, 6.5, 6.6, 6.8, 6.9, 6.10, 8.2, 8.3, 8.4, 8.5, 9.3, 9.5 and 9.11 hereof shall survive beyond the Effective Time without limitation.

Section 9.2. Entire Agreement. Except for the provisions of the Confidentiality Agreement which shall continue in full force and effect, this Agreement (including the schedules and exhibits and the agreements and other documents referred to herein, including, without limitation, the Ancillary Agreements) constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all other prior negotiations, commitments, agreements and understandings, both written and oral, between the parties or any of them with respect to the subject matter hereof.

Section 9.3. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware (regardless of the laws that might otherwise govern under applicable principles of conflicts law) as to all matters, including, without limitation, matters of validity, construction, effect, performance and remedies.

Section 9.4. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given upon (a) transmitter's confirmation of a receipt of a facsimile transmission, (b) confirmed delivery by a standard overnight carrier or when delivered by hand or (c) the expiration of five business days after the day when mailed by certified or registered mail, postage prepaid, addressed at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) If to the Company, to:

McKesson Corporation
One Post Street
San Francisco, California 94104
Telephone: (415) 983-8300
Telecopy No.: (415) 983-8826
Attention: Ivan D. Meyerson, Esq.

with a copy to:
Skadden, Arps, Slate, Meagher & Flom
919 Third Avenue
New York, New York 10022
Telephone: (212) 735-3000
Telecopy No.: (212) 735-2001
Attention: Peter Allan Atkins, Esq.

(b) If to Parent or the Purchaser, to:

Eli Lilly and Company
Lilly Corporate Center
Indianapolis, Indiana 46285
Telephone: (317) 276-2000
Telecopy No.: (317) 276-9152
Attention: General Counsel

with a copy to:

Dewey Ballantine
1301 Avenue of the Americas
New York, New York 10019
Telephone: (212) 259-8000
Telecopy No.: (212) 259-6333
Attention: Bernard E. Kury, Esq.

Section 9.5. Successors and Assigns; No Third Party Beneficiaries. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either party (whether by operation of law or otherwise) without the prior written consent of the other party; provided that Parent may assign its rights and obligations or those of the Purchaser to Parent or any subsidiary of Parent, but no such assignment shall relieve Parent or the Purchaser, as the case may be, of its obligations hereunder. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and except for Sections 2.7, 2.8, 2.10, 6.8 and 6.10 hereof nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

Section 9.6. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument.

Section 9.7. Interpretation. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement. As used in this Agreement, the term "person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

Section 9.8. Schedules. The Disclosure Schedule shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

Section 9.9. Legal Enforceability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without affecting the validity or enforceability of the remaining provisions hereof. Any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

Section 9.10. Specific Performance. Each of the parties hereto acknowledges and agrees that in the event of any breach of this Agreement, each non-breaching party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that the parties hereto (a) will waive, in any action for specific performance, the defense of adequacy of a remedy at law and (b) shall be entitled, in addition to any other remedy to which they may be entitled at law or in equity, to compel specific performance of this Agreement in any action instituted in any state or federal court sitting in Wilmington, Delaware. The parties hereto consent to personal jurisdiction in any such action brought in any state or federal court sitting in Wilmington, Delaware and to service of process upon it in the manner set forth in Section 9.4 hereof.

Section 9.11. Brokerage Fees and Commissions. Except as previously disclosed in writing, the Company hereby represents and warrants to Parent with respect to the Company, and Parent hereby represents and warrants to the Company with respect to Parent and the Purchaser, that no person or entity is entitled to receive from the Company or Parent and the Purchaser, respectively, any investment banking, brokerage or finder's fee or fees for financial consulting or advisory services in connection with this Agreement or any of the transactions contemplated hereby.

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized, all as of the day and year first above written.

MCKESSON CORPORATION

By: /s/ Garret Scholz

Name: Garret Scholz
Title: Vice President-Finance

Attest:

/s/ Arthur Chong

ELI LILLY AND COMPANY

By: /s/ Randall L. Tobias

Name: Randall L. Tobias
Title: Chairman and Chief Executive Officer

Attest:

/s/ Daniel P. Carmichael

ECO ACQUISITION CORPORATION

By: /s/ Charles E. Schalliol

Name: Charles E. Schalliol
Title: President

Attest:

/s/ Daniel P. Carmichael

CONDITIONS OF THE OFFER

Notwithstanding any other provision of the Offer, the Purchaser shall not be required to purchase any Shares tendered, and may terminate the Offer, if (i) immediately prior to the expiration of the Offer (as extended in accordance with the terms of the Offer), (A) any applicable waiting period under the HSR Act shall not have expired or been terminated, (B) the record date for the distribution of shares of Spinco Common Stock to stockholders of the Company pursuant to the Distribution Agreement shall not have been set by the Company's Board of Directors, or (C) the number of Shares validly tendered and not withdrawn which, when added to the Shares then beneficially owned by the Parent and its affiliates, does not constitute a majority of the Shares outstanding and representing a majority of the voting power of the Shares outstanding on a fully diluted basis on the date of purchase, or (ii) on or after July 10, 1994 and prior to the acceptance for payment of Shares, any of the following events shall occur:

(a) any of the representations or warranties of the Company contained in the Merger Agreement shall not have been true and correct at the date when made or (except for those representations and warranties made as of a particular date which need only be true and correct as of such date) shall cease to be true and correct at any time prior to consummation of the Offer, except where the failure to be so true and correct would not, individually or in the aggregate, have a Material Adverse Effect; provided that, if any such failure to be so true and correct is curable by the Company through the exercise of its best efforts and for so long as the Company continues to use such best efforts, the Purchaser may not terminate the Offer under this subsection (a); or

(b) the Company shall have breached any of its covenants or agreements contained in the Merger Agreement, except for any such breaches that, individually or in the aggregate, would not have a Material Adverse Effect; provided that, if any such breach is curable by the Company through the exercise of its best efforts and for so long as the Company continues to use such best efforts, the Purchaser may not terminate the Offer under this subsection (b); or

(c) there shall be any statute, rule regulation, decree, order or injunction promulgated, enacted, entered or enforced, or any legal or administrative proceeding initiated by any United States federal or state government, governmental authority or court which would (i) prohibit the Purchaser from consummating the Offer, the Merger or the Spin-Off, (ii) impose any material adverse limitation on the ability of Parent to exercise full rights of ownership of the Shares or to control the Retained Business, or (iii) have a Material Adverse Effect (provided that the provisions of this clause (iii) shall only apply in the event of any statute, rule, regulation, decree, order or injunction (A) which is enacted or entered into following the date of the Merger Agreement and (B) the substantive provisions of which were initially proposed for enactment following the date of the Merger Agreement); or

(d) there shall have been any damage or destruction affecting the facilities or properties (tangible or intangible) owned or used by the Retained Business, which would result in a Material Adverse Effect; provided that, if any such damage or destruction is curable by the Company through the exercise of its best efforts and for so long as the Company continues to use such best efforts, the Purchaser may not terminate the Offer under this subsection (d); or

(e) there shall have occurred (i) any general suspension of trading in securities on the New York Stock Exchange, Inc., (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, or (iii) a commencement of a war or armed hostilities involving the United States, which in the case of any of the foregoing clauses (i), (ii) or (iii) would have a Material Adverse Effect; or

(f) any person, entity or "group" (as that term is used in Section 13(d)(3) of the Exchange Act) has become the beneficial owner (as that term is defined in Rule 13d-3 promulgated under the Exchange Act) of more than thirty percent (30%) of the Shares outstanding on a fully diluted basis, or has been

granted any option or right, conditional or otherwise, to acquire or vote more than thirty percent (30%) of the Shares; or

(g) the Merger Agreement shall have been terminated in accordance with its terms.

The foregoing conditions are for the sole benefit of the Purchaser and may be asserted by the Purchaser regardless of the circumstances giving rise to such conditions, or may be waived by the Purchaser in whole or in part at any time and from time to time in its sole discretion; provided that the conditions set forth in clauses (i)(A), (B) and (C) or (ii)(g) above may be waived or modified only by mutual consent of the Purchaser and the Company.

Facsimile copies of the Letter of Transmittal, properly completed and duly executed, will be accepted. The Letter of Transmittal, certificates for Shares and any other required documents should be sent or delivered by each stockholder of the Company or his or her broker, dealer, commercial bank or other nominee to the Depositary at one of its addresses set forth below.

The Depositary for the Offer is:

CITIBANK, N.A.

By Mail:

Citibank, N.A.
c/o Citicorp Data Distribution, Inc.
P.O. Box 7072
Paramus, New Jersey 07653

By Facsimile Transmission:

(For Eligible Institutions Only)
(201) 262-3240

By Overnight Courier:

Citibank, N.A.
c/o Citicorp Data Distribution, Inc.
404 Sette Drive
Paramus, New Jersey 07652

By Telex:

(710) 990-4964
Answer Back: CDDI PARA

Confirm By Telephone:

(201) 262-4743 (Call Collect)

By Hand:

Citibank, N.A.
Corporate Trust Window
111 Wall Street, 5th Floor
New York, New York

Any questions or requests for assistance or additional copies of this Offer to Purchase, the Letter of Transmittal and the other tender offer materials may be directed to the Information Agent or the Dealer Manager at their respective telephone numbers and locations listed below. You may also contact your broker, dealer, commercial bank or trust company or nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

D.F. KING & CO., INC.
77 Water Street
New York, New York 10005
(212) 269-5550 (collect)
OR
CALL TOLL FREE (800) 755-3105

The Dealer Manager for the Offer is:

LEHMAN BROTHERS
3 World Financial Center
New York, New York 10285
(212) 526-2843 or (212) 526-3252
(Call Collect)

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